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A MANUAL OF
BOOKKEEPING

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A MANUAL OF
BOOKKEEPING

FOR THE USE OF STUDENTS

BY

J. THORNTON

AUTHOR OF "FIRST LESSONS IN BOOKKEEPING," "A PRIMER OF BOOKKEEPING," "EXAMINATION PAPERS IN BOOKKEEPING," &c.

51473
1901

"Of a surety, of a surety," said Sampson eagerly. "I understand bookkeeping by double entry and the Italian method!"

Guy Mannering.

London

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PREFACE

I HAVE been repeatedly urged by those who have used my elementary books on Bookkeeping to write a series of advanced lessons on the same subject, and I have accordingly written this Manual for the use of Students. By "Students" I do not mean Examination Students exclusively. I have had these in my mind throughout, but not less so those practical Students, who are not content to keep their books in jog-trot fashion, but are willing to give time and thought to inquire into the reasons of the methods employed, and have an open mind with respect to the constantly recurring question of the possibility of an improvement in those methods.

Students of this latter class ought to be a very numerous and a continually increasing body. Official Receivers in Bankruptcy declare with wearisome iteration in how many instances faulty Bookkeeping is the cause of financial disaster, until one is tempted to cry out for a law that no one shall give or take credit who does not keep his books on sound principles.

But the fear of Bankruptcy is not the only motive that should impel to a study of this subject. There can be no doubt that ignorance of the principles of Bookkeeping has hitherto afforded a wide field for the exercise of the talents of unscrupulous adventurers with a gift for the dexterous manipulation of figures. Figures it is said may be made to

prove anything. And just as cynics have remarked that the chief use of language is to conceal one's thoughts, so I dare-say cynics could be found who would say that the chief use of Bookkeeping is to conceal the facts. It is a pity that a science, the primary use of which is to exhibit facts, should ever be used for the very opposite purpose; but this tends to show not that we have too much knowledge of Bookkeeping but that we have too little, for it is manifest that if there were none to be duped there would be no dupers, and if every "Debtor" and "Creditor" in the land had a clear idea of the meaning and use of these terms in Account keeping, it is probable that designing Promoters and scheming Directors would not find it so easy a task as at present to delude the public with fraudulent Balance Sheets. So that on this ground also an increase in the number of Students of Book-keeping might in these days be reasonably hoped for.

Nor is the study of the subject of so abstruse a nature as to prevent an ordinary person from undertaking it. In its essence the theory of Double Entry is really a very simple thing. The late eminent Professor CAYLEY says: "It is only its extreme simplicity which prevents its being as interesting as it otherwise would be." This is of course a Mathematician's way of looking at things. There are some plain folk still left in the world who will not find the simplicity of the thing takes all its charm away. To such as these I address myself in this book. I think the subject ought to be interesting to everybody, and I have tried to make it so by stripping it of needless technicalities, and showing the simplicity of the principles that underlie the most complicated commercial forms.

The chief features of this Manual are the simplification of the Theory of Double Entry, the orderly arrangement of the various branches of the subject under clear and well-defined

heads, and the subordination of details to principles, and on each of these three points I have a word to say.

I.—THE SIMPLIFICATION OF THE THEORY.

There is a close connection, as it seems to me, between Economics and Bookkeeping. This is only natural and inevitable. "Economics" is the science of Exchanges. Bookkeeping is the Science and Art of recording those exchanges. The recognition of this connection enables the theory to be stated in an exceedingly simple form. Every Exchange involves of necessity a coming IN and a going OUT. Therefore every exchange (or Transaction) may be clearly and accurately understood as an instance of Value IN *versus* Value OUT, and may appropriately be recorded in the books by a reference to this principle. The terms "Dr." and "Cr." are often employed in Bookkeeping in a forced and highly artificial way, and I have found the substitution of the simpler terms IN and OUT, when explaining the principles of the science, a great gain to clearness and accuracy of thought.

II.—THE ARRANGEMENT OF THE BOOK.

The plan of the book will be best understood by a reference to the table of Contents, from which it will be seen that the general idea has been to arrange the various branches of the subject in some sort of logical sequence, and at the same time to include under one or other of these branches all those particulars that seemed necessary to a fairly comprehensive view of the subject. The Student can more readily retain such particulars in his mind under some

scheme of this kind than when presented in detached and disconnected portions. There is in fact a thread of thought running through the book, and I have been anxious that this thread should neither be broken by abrupt transition from one point to another, nor lost sight of in a mass of distracting details.

III.—THE SUBORDINATION OF DETAILS TO PRINCIPLES.

Details, in fact, must be subordinated to principles, if the Student is to learn. There is nothing educative about a mere exhibition of processes. A familiarity with processes indeed sometimes deludes one into a false idea that he "understands all about the matter." Accordingly I have tried not so much to explain processes as to use these to illustrate and elucidate principles. I have been less anxious to show *how* this and that are done than *why*.

I have often had people come to me with the question: What is your system of Bookkeeping? or perhaps: What system do you recommend for a Tinker or a Candlestick maker? I am sure such questioners will be very disappointed with this book. They will search in vain for what they want. They will find it only tries to teach them how to construct a system for themselves. Having in my mind this idea of teaching (so far as I was able), rather than of merely showing, I have set this book in the form of Lessons, and in this connection I must add one word of personal explanation. I am afraid I have contracted in the exercise of my profession as a schoolmaster an unfortunate familiarity of style that

cannot be shaken off at will. I am constantly fancying myself confronted by a class, and am too apt, when explaining difficulties, to address myself to the least capable member of my imaginary class. This habit is very trying to the patience of ordinary readers, and I ask them to accept my sincere apologies for a weakness I have hitherto been unable to overcome.

In spite of this and other deficiencies (which I am very conscious of), I hope that this Manual will be found useful to those for whose benefit it has been written.

Amongst other minor features of the work are the Appendix to Lesson X., on the Bank of England, the Appendix to Lesson XI., on the Foreign Exchanges, the tabular scheme of entries relating to consignments, and the tabular classification of errors in Lesson XIX.

I feel it at once a duty and a pleasure to acknowledge my indebtedness to previous writers on the subject. I have consulted amongst many others the well-known treatises of Child, Dicksee, Nixon, Norton, Whatley, and Van de Linde. I have also made use of Bithell's reliable "Counting House Dictionary," Clare's fascinating "Money Market Primer," and Pixley's standard work on Auditors.

My thanks are due to R. B. Fellowes, Esq., B.A., Librarian of the Institute of Chartered Accountants, through whose courtesy I have had free access to the valuable and comprehensive library of the Institute.

AVENUE HOUSE, SEVENOAKS.
June, 1895.

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CONSIGNMENTS.

Consignments OUT = Adventures.

SENT OUT ON CONSIGNOR'S OWN ACCOUNT AND RISK.

Consignments IN.

Accounts of the Consignor, Owen Richardson (Hereinafter called O.R.).

O.R.'s JOURNAL.

	£	£
Adventure (to Wonderland) *Dr.*	1,068	
To Goods (from Stock) *Cr.*		1,000
,, Cash (for Expenses paid)		43
,, Outstanding Charges Account (for Expenses not paid)		
,, Insurance Co.		25
,, To Cash (if Premium is paid)		
B.R. *Dr.*	500	
To E.E. *Cr.*		500
Cash *Dr.*	490	
P.&L. *Dr.*	10	
To B.R. *Cr.*		500
No entry at present. (Of course not. O.R. knows nothing about it.)		
E.E. *Dr.*	1,111	
To **Adventure** to Wonderland *Cr.*		1,111
(NOTE.)—O.R. need not Journalise Sundry Charges, &c., as shown in Account Sales.		
Adventure Account *Dr.*	43	
To P.&L.		43
For Balance of profit on Consignment to Wonderland.		
Cash *Dr.*	611	
To E.E.		611

TRANSACTIONS.

Goods despatched. (1) Goods received

Mar. 1. O.R. of London consigns 100 bales of Goods to E.E. of Wonderland on his own account and risk. Goods are invoiced at £1,000. Shipping charges paid by O.R. £43. Insured with Royal Insurance Co. for £1,250 at £2 per cent. On arrival E.E. incurs charges £50.

Part Payment (2) in anticipation.

Mar. 2 O.R. draws on E.E. at three months for £500 as an advance against above consignment, and discounts the bill for £490.

Consignment (3) sold.

Apr. 2. E.E. sells Goods consigned to him by O.R., London, to X.Y.Z. for £1,250.
Sale Expenses and Brokerage, £25.

Received Account Sales. (4) Sent Account Sales.

Apr. 2. E.E. charges O.R. with Interest and Commission, and makes out Account Sales (*see below*) showing that the consignment has realised (net) £1,111. This he forwards to O.R., and it is received by him on April 22.

Closing the (5) Account.

O.R. closes Adventure Account, and E.E. closes his Consignment Account.

Remittance (6) to settle.

E.E. remits sight draft for £611 to settle.

Accounts of the Consignee, Edward East (Hereinafter called E.E.)

E.E.'s JOURNAL.

	£	£
No entry for the INcoming of the Goods themselves, as these were not *to order* of E.E.		
Consignment from London *Dr.* (for freight, &c., &c.)	50	
To Cash (if paid)		50
or To Shipping Agent or Outstanding Charges (if not)		
O.R. *Dr.*	500	
To B.P.		500
X.Y.Z. *Dr.*	1,250	
To **Consignment from London** *Cr.*		1,250
Consignment Account *Dr.*	25	
To Cash		25
Consignment Account *Dr.*	64	
To Interest		1½
,, Commission		31¼
,, do (del credere)		31¼
Consignment Account *Dr.*	1,111	
To O.R. *Cr.*		1,111
For balance of O.R.'s Consignment Account—net proceeds of Sales.		
O.R. *Dr.*	611	
To Cash		611

O.R.'s LEDGER.

Dr. ADVENTURE TO WONDERLAND. *Cr.*

	£		£
1. To Goods	1,000	4. By E.E.	1,111
,, Charges	43	For net proceeds as per Account Sales.	
,, Insurance	25		
5. ,, P. L.	43		
	£1,111		£1,111

Dr. E.E. WONDERLAND. *Cr.*

	£		£
4. To net proceeds of Adventure Account	1,111	2. By Bill	500
		6. ,, Sight Draft	611
	£1,111		£1,111

Dr. PROFIT AND LOSS. *Cr.*

	£		£
Discount	10	5. By Adventure to W.	43

ACCOUNT SALES.

Account Sales of 100 bales of ——, received per ——, on account and risk of O.R. of London.

	cwt.	qr.	lb	£	s.	d.
100 Bales —— Gross	130	0	0			
Tare and Draft	5	0	0			
	125	0	0 @ £10 =	1,250	0	0

Charges.

	£	s.	d.			
Sale Exps. and Brokerage	25	0	0			
Freight	40	0	0			
Dock Charges	9	10	0			
Fire Insurance	0	10	0			
Interest	1	10	0			
Commission	31	5	0			
Del Credere do.	31	5	0	139	0	0
Net Proceeds				1,111	0	0

E. and O.E.
Wonderland,
April 22, 1895.

(Signed) EDWARD EAST.

E.E.'s LEDGER.

Dr. O.R.'s CONSIGNMENT ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
1. To Charges	50	0	0	3. By X.Y.Z.	1,250	0	0
3. ,, Brokerage, &c.	25	0	0				
4. ,, Interest	1	10	0				
,, Commission	62	10	0				
5. ,, O.R.'s Current Account	1,111	0	0				
	£1,250	0	0		£1,250	0	0

Dr. O.R.'s CURRENT ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
2. To Bill	500	0	0	5. By net proceeds of Consignment	1,111	0	0
6. ,, ,,	611	0	0				
	£1,111	0	0		£1,111	0	0

Dr. PROFIT AND LOSS. *Cr.*

	£	s.	d.
By Interest	1	10	0
,, Commission	62	10	0

A MANUAL OF

BOOKKEEPING

FOR THE USE OF STUDENTS

PART I

LAWS AND PRINCIPLES

LESSON I

THE PRINCIPLE OF EXCHANGES; OR, WHAT IS BOOKKEEPING?

We have set ourselves to learn the Theory and Practice of Bookkeeping by Double Entry—that is to say, we have to study not merely the methods employed in Bookkeeping, but also the reasons for those methods.

A familiarity with methods may be gained (and is most rapidly gained) by practical office work, but there is not much time to meditate about the reasons of things in the midst of the activities of a business career. This is however the chief part of a student's duty. Hence we shall not in this book concern ourselves simply with the inquiry, *How* is so and so done? but shall also ask with some measure of pertinacity *Why?*

It is clear that our first question will refer to the subject-matter of our study, and we shall have quite enough to do in this preliminary lesson if we confine ourselves to a consideration of what "Bookkeeping" is.

We may define Bookkeeping as: *The art of recording Exchanges of the pecuniary rights and obligations of an individual or company, in such a way as to exhibit the facts and their results in a complete and convenient form, and to* PROVE *the accuracy of the record.*

[NOTE.—The record of "exchanges" *includes* a record of the state of affairs at starting. For when a business is started with a capital of (say) £1,000, then £1,000 cash has been received *in exchange for* £1,000 worth of responsibility towards the proprietor or shareholders, as will be fully explained later on.]

There are six points in the above definition that require our attentive consideration.

1. The subject of the Exchanges—viz., Pecuniary Rights and Obligations.

2. The Exchanges themselves—that is to say, the INcomings and OUTgoings of these pecuniary rights and obligations.

3. The Results of these INcomings and OUTgoings.

4. The Completeness of the record.

5. Its Convenience.

6. Its Accuracy.

I.—PECUNIARY RIGHTS AND OBLIGATIONS.

Pecuniary obligations, called in Bookkeeping **liabilities,** are duties to pay certain sums of money. If I have bought £1,000 of goods, which I have not yet paid for, my "Liabilities" amount to £1,000, and Bookkeeping teaches how to record this fact. When I pay the money I have extinguished the Liability, and Bookkeeping teaches how to record the fact of its extinction.

Any part of a man's Property that may be used for the extinction of Liabilities is called in Bookkeeping an **Asset.**

The real meaning of the word Property, is a RIGHT specially appertaining to a certain person. A man may have Property in many things—in houses, in lands, in money, in his own skill and ability, and in abstract rights against other persons.

In modern times however the word has come to be used for the things themselves concerning which the Rights are held; so that when we speak of Property we are usually thinking of the thing itself rather than of the owner's Right to that thing, to possess it or dispose of it as it pleases him.

Property in personal skill or abilities, though often a very valuable pecuniary right, is not legally available for the discharge of a man's liabilities. Suppose, for instance, A. B. owes £1,000, and has no property of any kind except a magnificent tenor voice, A. B. can, *if he pleases*, enter into a contract to exercise his musical abilities at certain specified times and places in exchange for so much ready cash, and can thus pay his creditors, but this valuable pecuniary right is not one of his Assets, and his creditors cannot legally *demand* that he shall thus satisfy their claims.

There are three kinds of Property that are included in the Bookkeeping term Assets.

(i.) Property in Money, Bank Notes, Cheques, Bills, &c.

(ii.) Property in other material objects, such as Houses, Lands, Buildings, Machinery, Materials, and Merchandise.

(iii.) Property in Abstract Rights, such as Debts, Copyrights, Annuities, &c.

It will somewhat simplify matters if we agree (during this lesson at any rate) to call these three "Cash," "Goods," and "Debts," and in order to distinguish these latter from Debts that a man creates against himself, we will call them Debts Receivable (D.R.).

The sum total of the Assets of any individual or company, less the sum total of their Liabilities, gives the amount of their *CAPITAL.*

II.—EXCHANGES.

The Exchanges of Assets and Liabilities, involving their constant INFLOW and OUTFLOW, are the facts which it is the duty of Bookkeeping to record. These Exchanges are called in commercial language "Transactions." We have now to inquire what different kinds of Exchanges there are, and how they may be classified.

(*a*) There may be Exchanges between any of the three kinds of Property we have enumerated—viz., "Cash," "Goods," and "Debts" (remember the sense in which we use these words, page 3). Thus there may be

(i.) An Exchange of Cash for Cash.

(ii.) An Exchange of Cash for Goods.

(iii.) An Exchange of Cash for Debts.

(iv.) An Exchange of Goods for Goods.

(v.) An Exchange of Goods for Debts.

(vi.) An Exchange of Debts for Debts.

(*b*) But suppose a man exchanges some of his own Strength or Skill for some one or other of the three ASSETS—Cash, Goods, or Debts; or suppose he exchanges some of his own ASSETS for some portion of some one else's Skill; does Bookkeeping record such Exchanges as these?

Certainly it does. Bookkeeping begins to take notice of the value of a man's mental and bodily powers the same instant that they are put forth in exchange. But so long as they lie sleeping, Bookkeeping disregards them.

Suppose we group all the varied exchangeable "Abilities" of a man—the strong right arm of the blacksmith, the keen intellect of the lawyer, the experience of the physician, the sweet voice of the singer, the business insight of the merchant, and I know not what besides—suppose we call the exercise of all these things in Exchange by the general term "*Services.*"

We shall then have to add to our list of the various kinds of Exchanges

(vii.) An Exchange of Services for Services.

(viii.) An Exchange of Services for Cash.

(ix.) An Exchange of Services for Goods.

(x.) An Exchange of Services for Debts.

These ten kinds of Exchanges may be put in tabular form so as to be easily retained in the mind—

C × C	G × G	D × D	S × S
C × G	G × D	D × S	
C × D	G × S		
C × S			

Bear in mind also that many of the Transactions of Bookkeeping are of a *complex* nature, and involve the INflow of *two* (or more) of the above exchangeable quantities against the OUTflow of *one*—and *vice versâ*. For example, Services and Goods may be exchanged for Cash, or a Debt may be exchanged for Goods and Cash.

Some of these Exchanges are rare and others frequent, but together they embrace all the facts of which Bookkeeping takes notice.

These facts may be classified in another way by noticing that each of the above exchangeable quantities may come IN or go OUT. This will be made quite clear by a glance at the following Diagram—

CASH.	
coming IN	going OUT
in exchange for: Cash, Goods, Debts, Services	in exchange for: Cash, Goods, Debts, Services
RECEIPTS	PAYMENTS

GOODS	
coming IN	going OUT
in exchange for: Cash, Goods, Debts, Services	in exchange for: Cash, Goods, Debts, Services
PURCHASES	SALES

DEBTS	
coming IN	going OUT
in exchange for: Cash, Goods, Debts, Services	in exchange for: Cash, Goods, Debts, Services

SERVICES	
coming IN	going OUT
in exchange for: Cash, Goods, Debts, Services	in exchange for: Cash, Goods, Debts, Services
SERVICES RECEIVED	SERVICES RENDERED

III.—THEIR RESULTS.

The most important thing recorded by Bookkeeping is the growth and decline of CAPITAL. We have now to ask, therefore, What are the results of all these INcomings and OUTgoings we have been talking about on CAPITAL? How do they affect its Growth or its Decline?

First, let us see precisely what we mean by "Capital." We

often hear it said that "Credit is Capital," and this is strictly true. A man begins business with £1,000 Cash and no Liabilities. He is working with a Capital of £1,000. But now suppose his "Credit" is good, and he obtains from A. B. an advance of another thousand pounds to enable him to extend his operations. He is now working with a capital of £2,000, but only half of it *belongs to him.* His "Capital" in the business remains what it was before, and is calculated thus :—ASSETS (viz. Cash) £2,000, less LIABILITY (to A. B.) £1,000 = CAPITAL £1,000.

We may say, therefore, that the *Gross* Capital is equal to the total Assets of the business, but the *Net* Capital is equal to the total Assets *minus* the total Liabilities.

It is in this latter restricted sense that we use the word "Capital" in Bookkeeping; and it is this—the *Proprietor's* Capital—about the growth or decline of which we are specially interested just now.

Notice first that an *Increase* (or Issue) of Liabilities has precisely the same effect on "Capital" as a *Decrease* of Assets :—Suppose I start with a Capital of £1,000 (Cash). I then purchase of X. Y. Z. £1,000 worth of Goods. Now two courses may perhaps be open to me—(i.) I may pay for these Goods in Cash; then my Capital will consist of ASSETS (Goods) £1,000. Or (ii.) X. Y. Z. may give me credit; then I am **liable** to them. My Capital now consists of ASSETS £2,000, minus LIABILITIES £1,000 = £1,000. It is clear that whichever course I take my Capital remains the same; that is, an Increase of my Liabilities (course ii.) has the same effect on Capital as a Decrease of Assets (course i.).

In the same way it might be shown that a Decrease (or cancelling) of Liabilities has precisely the same effect on Capital as an Increase of Assets.

Now whenever a Transaction takes place in which an Increase of any Asset is exactly balanced by a corresponding Decrease of Asset (or issue of Liability) it is manifest that there is no growth of "Capital."

And whenever a Transaction takes place in which a Decrease of any Asset is exactly balanced by a corresponding Increase of Asset (or Cancelling of Liability) then it is manifest that there is no decline in "Capital."

Think over the above, and you will see that Exchanges (i.) to (vi.) must (when not mixed up with the other four Exchanges) be barren of results so far as Growth or Decline of Capital are concerned.

It is quite otherwise with Exchanges in which "*Services*" are involved. The Exchange of any kind of Service for any kind of Asset (or extinction of Liability) involves an increase in "Capital," and the Exchange of any kind of Asset (or outgoing of Liability) for any kind of Service received involves a decrease in "Capital."

The growth and diminution of Capital arising out of Exchanges involving Services received or Services rendered are called by the specific names "Profit" and "Loss."

Additions to Capital made from the private resources of the Proprietor, or by new proprietors joining the original one, are not "Profit." Nor is money withdrawn by the Proprietor for his own personal use, called "Loss."

We see then that the chief results of "Transactions" are **Gains** and **Losses**, and that these arise out of Services rendered and Services received.

IV.—THE COMPLETENESS OF THE RECORD.

It is of the very nature of an "Exchange" that it should involve both an INcoming and an OUTgoing. When I exchange Goods for Cash, the Cash comes IN, the Goods go

OUT, and so with every other Exchange. If the record of an Exchange is to be complete therefore, it must of necessity contain entries both of the coming IN and of the going OUT. That is to say, there must in some way be a Double Entry of each transaction, otherwise the record is incomplete. It is true that many people (for want of knowing better) do Keep their Books in this faulty and incomplete manner. And this method of keeping Books used at one time to be taught in schools, greatly to the bewilderment of the pupils, who wondered what they were driving at. It was dignified with the title of "Bookkeeping by Single Entry." Grave examiners would gravely set examination papers thereon, and writers of books on Bookkeeping would seriously argue that "Single Entry is more suited to the operations of retail trade"!

But all keeping of Books is not "Bookkeeping," and no keeping of books that neglects one half of its duty should ever be called by that name. Hence when we speak of "Bookkeeping" in these pages, it goes without saying that we mean Bookkeeping by Double Entry.

If the record is complete it must contain—

(i.) A record of all the Assets of the business.

(ii.) A record of all the Liabilities.

(iii.) A record of the Capital.

(iv.) A record of all INcomings and OUTgoings of Assets and Liabilities.

(v.) A record of all Gains and Losses.

(vi.) A record of the growth and decline of Capital [either by (v.) or otherwise].

These are all very useful and important particulars, the neglect of any one of which betokens an incompleteness in the

record that might bring serious confusion into the affairs of the Proprietor. All these particulars are clearly set forth by Double Entry.

We shall explain by and bye with some fulness precisely what "Double Entry" means.

Meanwhile we may content ourselves with this:—Single Entry records some of the facts but none of the results, whereas Double Entry records all the facts and their results too.

V.—THE CONVENIENCE OF THE RECORD.

Transactions are recorded in the books in two ways. The first is a chronological, and the second is a classified record.

The chronological record is convenient for entering, and the classified record is convenient for purposes of *reference*. The latter of these two records is compiled from the former, and may, indeed, be regarded as a sort of Index to it, so that just as by referring to the Index to Macaulay's *History of England* I could trace the career of Judge Jeffreys from the various statements made about him in different pages of that book, so by referring to my *Classified Record* (named LEDGER) I can trace all the various transactions that have occurred in my business in connection with the individual John Jones, or any other person or thing that those transactions may have affected.

The convenience of this record will be apparent by referring to the list of six important particulars given on page 10, all of which are so clearly and concisely shown by Bookkeeping, that they can be readily ascertained at any time.

VI.—THE ACCURACY OF THE RECORD.

If this Record is complete, it follows that its accuracy can be tested in a remarkably simple manner. Each Exchange having involved both an INcoming and an OUTgoing, the sum total of the INS will at any time equal the sum total of the OUTS.

This leads to that beautiful, and important result which I have referred to in my "*First Lessons*" as

PROVING THE BOOKS

by making Capital Account and Balance Sheet agree, an issue which is at once the Goal and the Reward of the Bookkeeper's labours, so that just as a man "proves" the accuracy of his daily Cash balance by adding up his notes, gold, silver, and copper, and seeing if the total is what he ought to have, according to his cash account, so he may prove the accuracy of his CAPITAL or "total worth" account, by adding up Cash, Goods, and Debts.

For example A. B. starts in business with CAPITAL £2,000 (Goods £1,000, Cash £1,000). His *profit* during the year is £1,000, and he has *drawn out* for private Expenses £500. Very clearly he is worth £2,500 at the end of the year. What does his Ledger (or classified record) say? If it says Cash £900, Goods £900, Debts Receivable £900—*i.e.* total Assets £2,700—and Debts Payable £200, then his Capital is £2,500, and he has "**Proved his Books.**"

Herein lies the value and the charm of Bookkeeping. No one-legged "Single Entry system" can supply such Proof of Accuracy as this.

It is well however to note here (what will be dealt with fully by and bye) that there are two classes of errors that "Proving the Books" does not guard against. These are

(1) An error or omission in the original or chronological record.

(2) A double or compensating error in the act of transfer to the Classified record.

If these two classes of errors can be avoided then the accuracy of the record made by Bookkeeping is absolute.

Summary of Lesson I.

1. Bookkeeping is the art of recording pecuniary rights and obligations.

2. Pecuniary obligations are Liabilities.

3. Pecuniary rights are Assets.

4. Assets are of three kinds: Money, Goods, and Debts.

5. Exchanges of Assets or Liabilities are called Transactions.

6. Assets or Liabilities may be exchanged for "Services."

7. By "Services" we mean any kind of strength, skill, or ability put forth in exchange.

8. There are in all ten kinds of Exchanges.

9. "Capital" is the difference between "Assets" and "Liabilities."

10. The most important thing recorded by Bookkeeping is the growth and decline of "Capital."

11. By "Capital" we mean, in Bookkeeping, Proprietor's Capital.

12. { Increase of Liabilities = Decrease of Assets.
{ Decrease of Liabilities = Increase of Assets.

13. Exchanges where "Services" are concerned lead to the growth or diminution of "Capital."

14. Such growth and diminution is called "Profit" and "Loss."

15. A complete entry of a Transaction must record both the Incoming and the Outgoing.

16. A complete Entry must therefore be a Double Entry.

17. The record of Exchanges is both chronological and classified, the latter being compiled from the former.

18. If the record is complete the Books will **Prove**.

19. Capital or Total Worth Account is Proved as a Cash Account is Proved.

20. Some Errors are not revealed by Proving.

Questions on Lesson I.

1. Define Bookkeeping.

2. What six points may be noticed about this definition?

3. Define "Liability" and "Asset."

4. Distinguish between the modern use of the word "Property" and its more exact meaning.

5. What classes of Rights are, and what classes are not, included in the term "Assets"?

6. What are Transactions? Enumerate six kinds of Transactions where "Services" are not involved, and four where they are.

7. Explain carefully what is meant by "Services."

8. Make a Diagram to illustrate the various kinds of Exchanges.

9. Explain precisely what is meant by "Capital."

10. Show that a Cancelling of Liability has the same effect on Capital as an increase of Assets.

11. What classes of Exchanges affect Capital?

12. Why must a complete entry of any transaction be a Double Entry?

13. What is a *classified* record of Transactions called? Show its convenience.

14. What six particulars are recorded in the Ledger?

15. Show, by the analogy of a Cash Account, how the accuracy of a Capital Account may be tested.

16. What two classes of Errors are not revealed by "Proving the Books"?

LESSON II

THE PRINCIPLES OF "DR. AND CR." AND "DOUBLE ENTRY"; OR, HOW DOES BOOKKEEPING WORK?

THE classified record of which we spoke in Section I. is a collection of "**Accounts,**" and the book in which these accounts are kept is called a Ledger. We shall get a fair insight into the general method by which Bookkeeping works if we inquire

(1) What is an "*Account*"?

(2) How is it kept?

(3) How and why is it "*balanced*"?

(4) Why must every transaction be recorded in two (or more) "*accounts*"?

In answering these questions we have to examine the technical terms "*Dr. and Cr.*," "*Balance*," and "*Double Entry*," a clear understanding of which terms is essential to our future progress.

I.—WHAT IS AN ACCOUNT?

An Account is a record of A SPECIFIC CLASS of the pecuniary rights and obligations of an individual or company.

It contains—

(i.) A record of the state of these rights or obligations at a certain date;

(ii.) A record of their INflowings and OUTflowings during a certain period of time.

To make this clear, suppose that on January 1st, 1895, a merchant has, amongst other pecuniary rights and obligations, a "debt" due to him by Mr. John Smith, and that during 1895 he has certain transactions with the aforesaid Mr. John Smith involving variations in the amount of this debt. This "debt," and these subsequent "transactions," form together a "specific class of the merchant's pecuniary rights and obligations," and the record of these (kept apart from the record of any other pecuniary rights or obligations of his) is called an "account."

II.—HOW ARE ACCOUNTS KEPT?

(i.) The first thing is to see that the Account is labelled or ticketed in some unmistakable manner, so that all who have access to the books may tell at a glance what specific class of rights and obligations is recorded therein, and so that no entries, except such as truly belong to that class, shall creep in by inadvertence.

Accordingly, a convenient place having been found in the Ledger, the name or title of the Account is written in a bold clear style on the top line, thus—

John Smith

(ii.) The second thing to notice is that, since an Account is a record of a pecuniary right or obligation, it is necessary chiefly that its *money value* and the money value of each successive increase or decrease thereof should be clearly stated. This is done by the use of money columns.

Money is a "measure of value," and in Bookkeeping the value of each "exchange" is measured in money, and this money-value is the all-important part of every entry. Whatever we cannot or do not assign a money-value to, has nothing to do with Bookkeeping, though it may be more valuable to its owner than all the gold in the Bank of England.

(iii.) We have now to notice what means the Merchant takes in the compilation of an Account to distinguish between his Rights and his Obligations. It would of course be possible to do this by putting a pre-arranged mark against each entry. The most obviously convenient method, however, is that which is universally adopted. The Account is divided into two portions by a vertical line, and the merchant enters Rights on one side of this line and Obligations on the other.

Now take the case just mentioned, where the merchant has a sum of money (say £100) owed to him by Mr. John Smith. A person who owes money to another is called his "Debtor." The merchant therefore writes Dr. at the top of the left-hand side of the account, and enters the amount due to him on the first line below.

Dr. JOHN SMITH.

£	*s.*	*d.*
100	0	0

NOTE.—In actual practice the money columns are not headed with the letters £ *s.* *d.* The books are ruled with columns in such a way that every one understands which column is meant for pounds, which for shillings, and which for pence.

The person to whom the debt is due,—that is the one who holds the Right to demand it—is called the "Creditor" of the one who owes it. Suppose the same merchant to have a

creditor named W. Black, to whom he owes £200, and that he wishes to keep a separate record of the pecuniary relations between himself and W. Black, he will open another account, headed W. Black, and will enter £200 on the right-hand side, writing "Cr." at the top, thus:

Dr.	W. BLACK	Cr.
		£ s. d.
		200 0 0

We must now look carefully into the meaning and use of the familiar terms

Dr. and Cr.

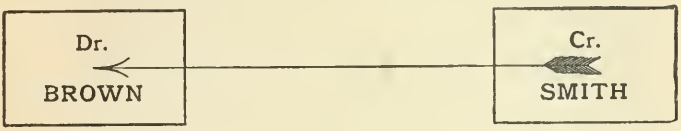
These terms are *correlative*, that is to say the one involves the existence of the other. It is impossible to conceive of an "inside" without an "outside," and there was never yet a "debtor" without a "creditor."

A debtor is one who is under an obligation to another. The duty or obligation to be discharged is the "debit" or "debt." The term debt is however frequently used to denote the sum of money owing. The one to whom the debt is due is the creditor.

The common phrases "I am much obliged to you," "I am greatly indebted to you," are equivalent to "I am your debtor." St. Paul says in his epistle to the Romans, "I am *debtor* both to the Greeks and the Barbarians." In Shakespeare's *Merchant of Venice*, Antonio was *debtor* to Shylock. Shylock was Antonio's *creditor*.

If John Smith lends William Brown £50, William Brown

has become John Smith's debtor, and at the same moment and by the same act, Smith has become Brown's creditor.



The above transaction would have been written down in Smith's books of account thus :

Dr. WM. BROWN. *Cr.*

(*i.e.* my pecuniary relations with William Brown.)

Jan. 1.	To Cash ...	...	£50		

This entry may be regarded as a memorandum made by Smith to remind him that on January 1 W. Brown became his "*Debtor*" to the extent of £50.

William Brown himself however would record the transaction thus :

Dr. J. SMITH. *Cr.*

(*i.e.* my pecuniary relations with J. Smith.)

		Jan. 1	By Cash ...	...	£50

and W. Brown by making this entry, means to remind himself that on January 1 Smith became his "*Creditor*" for £50.

So far all is plain sailing. There is no technicality about the words. They are used in their ordinary every-day sense.

What puzzles beginners is, that the words "Dr." and "Cr." should be used about the same person in the same account. A man cannot, they say, be both debtor and creditor to the same person *at the same time!* Very true.

How is this apparent anomaly to be explained? The explanation is that in entering each successive transaction, we look at the effect of that single transaction by itself—quite apart from the effect of any other transactions that may have preceded it.

Suppose, for example, that John Smith having lent William Brown £50 on Jan. 1 (the entries of this having been made as already shown), Brown on Feb. 1 pays Smith £25. Now this payment is, in truth, a partial repayment of the original loan, and it leaves Brown still Smith's *Debtor*, but in making the entry of this partial repayment, we entirely disregard the effect of all other transactions, and concentrate our minds on the one before us. What relation would this transaction of Feb. 1 *standing by itself* establish between the two parties? Undoubtedly, *standing by itself*, it would cause *Smith* to be (Brown's) *Debtor*, and *Brown* (Smith's) *Creditor*. Hence Brown would enter it in *his* books under the heading "J. Smith," *and on the Dr. side* thus :—

Dr.	J. SMITH.	*Cr.*
Feb. 1. To Cash ... £25	Jan. 1. By Cash	£50

but in Smith's books it would be entered *on the Cr. side* of Brown's account, indicating that a transaction had taken place on Feb. 1 which (*considered by itself*) would make W. Brown a Creditor of his.

Dr.	W. BROWN.	*Cr.*
Jan. 1 To Cash £50	Feb. 1 By Cash ... £25	

Thus the student will see that in order to understand the use of the terms Dr. and Cr. he must *restrict* his thoughts to the meaning and effect of each successive entry, considered apart from all others.

It is only by this act of mental concentration that he can be sure of knowing when to "debit" and when to "credit" an account.

To debit an account is to make an entry on the Dr. side, and **to credit an account** is to make an entry on the credit side.

From looking at the above examples we shall also see that an account is "*debited*"

(i.) In order to record an increase of its responsibility (towards the Proprietor).

E.g. Smith "debits" Brown on Jan. 1 to show that Brown is responsible to him in the sum of £50.

(ii.) In order to record a decrease of the Proprietor's responsibility (towards it).

E.g. Brown "debits" Smith on Feb. 1 to show that he is relieved of £25 worth of responsibility towards Smith.

On the other hand an account is "*credited*"

(i.) In order to record an increase of the Proprietor's responsibility (towards it).

E.g. Brown (as Proprietor) "*credits*" Smith on Jan. 1 to show that he incurred responsibility towards Smith on that date to the extent of £50.

(ii.) In order to record a decrease of its responsibility (towards the Proprietor).

E.g. Smith "credits" Brown on Feb. 1 to show that on that date Brown is relieved of responsibility towards him to the extent of £25.

Extended application of these terms.

A man has however other Rights than Debts. He may have Property in Cash, Bills, Houses, Merchandise, &c., and the Dr. and Cr. form of keeping accounts of persons is found so convenient that the idea is extended to accounts of Things. What is the meaning of the terms Dr. and Cr. as thus applied?

Now one of the most important of the Things of which Bookkeeping records the Inflow and Outflow is *Cash;* and it so happens, that, with respect to this particular "thing," an arrangement frequently exists, which will assist us very much in understanding how it is, that the terms "Dr." and "Cr." are applicable to things of all kinds.

For "Cash" is usually placed *in charge of a person*, called the Cashier, (or, it may be, the Banker), and it is easy to see that when Cash comes IN to the Cashier's or Banker's keeping, he is responsible to the Proprietor for it, in other words he is a *Debtor* of the proprietor's. We therefore "*debit*" Cash account to indicate this. When, on the other hand, we draw money OUT for payments of any kind, we "credit" Cash account to show that the Cashier is relieved of responsibility towards us, to the extent of those payments.

And if we employ no Cashier at all, but simply lock up our money in a box, we then regard our Strong-box *as a person*, debiting him for what we put IN—saying in effect "My strong box is responsible to me for so much money,"—and crediting him for what we take OUT, saying "I hereby relieve this iron guardian of my Cash of such and such responsibilities."

And now what is to prevent our carrying out this idea right away through every department of our business? We can imagine that we appoint (or even actually appoint) a custodian for bills, another for our "business premises," and another for goods, or (if we choose) one for each kind of merchandise in which we deal. Each of these real or imaginary custodians is then responsible to us for such of our belongings as we place in his charge, and is accordingly "Dr." to us. But when these belongings go out of his charge from any cause, he is relieved of his responsibility, and is (to that extent) a "Cr." of ours.

Consider now this further question. The Proprietor of the business has in his own books, an account, with branches and subdivisions, opened to himself! This is called "Capital account," and is the most important account in the Ledger, as we shall see by and by. But how can we explain the application of the terms Dr. and Cr. to this account? Can a man be his own debtor or his own creditor?

I think you will see that he can, if you stop a bit, and think. A gentleman has just been good enough to give me a sovereign, for an object I have undertaken to collect for. What did I do with it? I placed it in my private purse, with my other money, and at the same time made a memorandum to show that my purse was a **Dr.** to my collecting card, that is to say that J. Thornton the private person was a debtor to J. Thornton the collector.

In the same way when A. B. starts a business of any kind, he opens an account *in his own name*, headed

Dr. A. B. CAPITAL ACCOUNT. *Cr.*

to show the relation existing between A. B. the business man, and A. B. the private individual. If he starts with £1,000 Cash, and nothing else, he (the business man) "credits"

A. B. Capital account (the private man) with £1000, to show that the business acknowledges responsibility to the Capitalist who furnishes it with funds to make a start. When A. B. takes from the business Cash Box £20 for his own private use he then "debits" Capital account to show that A. B. the business man is relieved of £20 worth of his original responsibility towards A. B. the private individual.

Having thus shown the meaning and use of the terms Dr. and Cr. we have to ask

III.—HOW ACCOUNTS ARE "BALANCED" AND WHY.

Let us first look at an example of a Dr. and Cr. account supposed to be extracted from the books of John Smith.

Dr. JAMES ROBINSON. *Cr.*

	£		£
Jan. 1. To Balance ...	140	Jan. 10. By Cash	100
,, 7. ,, Goods ...	75	,, 25. ,, Sundries ...	205
,, 18. ,, ,, ...	55		
,, 19. ,, ,, ...	100		

The first entry attracts our attention at once. On Jan. 1 the entry "To Balance" is made, in order to show that as the net result of all previous transactions up to that date J. Robinson was Smith's debtor to the amount of £140. The entries on Jan. 7, 18, and 19 show that transactions took place on those dates, having the effect of increasing this debt, whilst the entries on Jan. 10 and 25 indicate transactions having an opposite effect.

If we desire to know the net result of all transactions up to the present time, we must again "*balance*" the account, that is

we must find the difference between the totals of the two sides, and having found this amount we must set it down in such a way as not to interfere with the convenience or correctness of any subsequent entries. This is done by entering the balance *twice*, as shown below.

Dr. JAMES ROBINSON. *Cr.*

		£			£
Jan. 1.	To Balance ...	140	Jan. 10.	By Cash	100
,, 7.	,, Goods ...	75	,, 25.	,, Sundries ...	205
,, 18.	,, ,, ...	55	,, 31.	,, **Balance** ...	65
,, 19.	,, ,, ...	100			
		370			370
Feb. 1.	**To Balance** ...	65			

The totals are put on the same line for convenience of comparison, and the space left blank is usually cancelled with a diagonal line to show that there are no further entries to come.

Notice that the word balance is used in Bookkeeping both as a noun and a verb. To "balance" an account is to find the difference between the two sides and to set it down as in the Example given. This difference is itself called the "*Balance.*" When there is no difference between the sum of the debits and the sum of the credits, we say that the account "*balances.*"

Beginners have sometimes said, "How is it that an account has one balance at the beginning and another of different amount at the end?" This reminds one of the man who complained that his thermometer was evidently out of order, for it said one thing one day and quite another the next!

It will be seen from the above example, that while the totals of an account are of little importance, the *balance* is of great

importance, that it is indeed the "thermometer" of the account.

Learn therefore, from the first, not only to exercise the greatest care in balancing accounts, but also, when the account has been balanced, to note carefully the amount, and whether it is a Dr. or Cr. balance. As I said in my FIRST LESSONS "*Beware of hastily catching sight of the total and calling that the balance.*"

Advanced students should practise balancing by *the making up method.* In most modern books of Arithmetic subtraction is shown by this method.

Suppose an account to have the following amounts on the Dr. and Cr. sides respectively.

Dr.				*Cr.*		
£	*s.*	*d.*		£	*s.*	*d.*
170	6	6		230	18	8
20	12	0		582	10	0
35	14	4				
10	10	0				
25	0	0				
33	6	8				

We notice *first* that the Cr. side is the heavier, *secondly*, that we shall require a line to be left on the lighter side for the "balance," *thirdly*, we cast up the heavier side in the account.

In the account before us we cast the Cr. side first. When we have arrived at this stage we proceed to add up the Dr. side, filling up the blank line with such figures as will "make up" the total to the same amount as we have already got on the Cr. side.

PENCE

The mental process is somewhat as follows (beginning at the top) six, ten, eighteen, 1/6, and 2*d.* (then put down 2 on balance line) makes 1/8 (put

SHILLINGS

down 8 on "Totals" line and carry 1) 7, 9, 13, 19, 49, £2 9*s.* 0*d.* and 19 (put down 19 on balance line) makes £3 8*s.* 0*d.* (put down 8 and carry 3)

POUNDS

8, 13, 16 and 7 (put down 7) makes 23 (put down 3 and carry 2), 9, 11, 15, 20 and 1 (put down 1) makes 21 (put down 1 and carry 2) 2, 3, and 5 (put down 5) makes 8 (put down 8).

Dr. *Cr.*

	£	s.	d.		£	s.	d.
	170	6	6		230	18	8
	20	12	0		582	10	0
	35	14	4				
	10	10	0				
	25	0	0				
	33	6	8				
Balance ...	517	19	2				
Total	813	8	8	Total	813	8	8
				Balance ...	517	19	2

The process looks on paper much more complicated than it really is. It will be found the best and easiest method of balancing accounts, if the following CAUTIONS are observed.

(i.) Look carefully before casting the first side to make sure that you are operating on the heavier side.

(ii.) Notice where the balance will fall and leave a line for it if necessary.

(iii.) *Cast a second time* for Proof.

IV.—WHY MUST EVERY TRANSACTION BE RECORDED IN (AT LEAST) **TWO** ACCOUNTS?

This is the fundamental rule and the distinctive feature of Bookkeeping by Double Entry. We must ask then, "What is meant by 'Double Entry,' and wherein does it differ from 'Single Entry'?"

It has already been shown that a "Transaction" consists of an exchange of Cash, Goods, Debts, or Services, for a like value of the same or some other exchangeable quantity.

It follows from this that every Transaction will affect the Merchant in two distinct and opposite ways. In the one case

Cash, Goods, Debts, or Services come IN, and in the other case one or more of these four quantities goes OUT.

Now since every Account is a record of a distinct class of pecuniary rights or obligations, and every transaction involves the INcoming of one class of Rights or Obligations and the OUTgoing of another, it is plain that every transaction must be entered in two (or more) accounts.

A *complete* record of a transaction must therefore be a double record, that is it will require "*double entry*" in the books of Account. Hence it follows that Bookkeeping by Double Entry is the only correct method of Bookkeeping. It is the only method worth learning, the only method worth teaching, and the only method worth any one's serious attention.

Many tradespeople, as we have already said, keep an imperfect record of their transactions, dignified by the title "Bookkeeping by Single Entry." By this "system" (!) the only accounts kept in the Ledger are personal accounts. There is no record of Gains and Losses, and no possibility of **proving the Books**. This imperfect method ought not to be called "Bookkeeping" at all.

On the other hand, there is a method by which the labour of entering each transaction twice may be greatly abridged, by grouping together transactions of a kindred nature, and entering in one total several items all of which affect one and the same account. This method, which will be fully discussed hereafter, is often miscalled "Single Entry." This misapplication of the term is a serious and a mischievous error. The method referred to is really an advanced kind of "Double Entry," and the principle underlying this labour-saving plan is capable of wider application than it often receives.

There is so much confusion on this question of "Double Entry," even in some books on Bookkeeping, and still more in

the minds of many otherwise well-informed people, that it is necessary here to add a few emphatic

CAUTIONS

as to what Double Entry does *not* mean.

1. Double Entry does not mean keeping other people's accounts as well as your own.

It is quite true that every transaction affects two persons, but this is not the reason for the double entry that is required. It affects *each* of these persons *in two opposite ways*, and for this reason each of them should make a double entry of it. I do not wish to keep a record in my books of the effect of each one of the multitudinous transactions of my business on A, B, C, and all the other people with whom I do business (except in so far as *my own* Rights or Obligations are affected thereby)—and if I *did*, it would often be quite impossible. Half of my affairs may be transacted with the unknown individuals X, Y, and Z, whose names and abodes I am alike ignorant of.

2. Double Entry does not involve double the clerical labour of Single Entry.

Many people keep their books in such a manner that, although they have never proved them in their life, comparatively few additional entries would be needed to convert their Single Entry into Double, and enable them to do so. (See Lesson VI.)

3. Double entry does not depend on the keeping of a "*Journal*."

We shall explain the use of a Journal by and by, and the Student will see how useful a servant it is; but it is just as well to let no servant, however useful, imagine that he is *indispensable!*

4. Double Entry does not need a separate account for each kind of merchandise in which the business deals.

This is entirely a matter for the fancy of the Proprietor of the business, who can keep one Goods account or twenty or fifty. One is all that is necessary to Double Entry.

5. Double Entry does not exclude the use of "Day Book" and "Invoice Book," nor does the use of these books imply that the books are kept by Single Entry.

"*Day Book*" and "*Invoice Book*" will be explained hereafter, when it will be seen that these books are in reality portions of a classified Journal, and that when properly kept, they are the means of greatly abridging the Bookkeeper's labour.

Let us now take a few examples of ordinary transactions and see how they affect the man of business in two distinct and opposite ways :—

Jan 1 *I bought Goods for Cash* £50.

This increases my stock of Goods and it decreases my stock of Cash. It therefore needs a *double* entry.

Jan. 2 *I sell Goods to Mr. Jones* (*on Credit*) £50.

Here my Debts Receivable have increased and my Goods have decreased. I must therefore make a *double* entry of the transaction.

Jan. 3 *Mr. Jones pays me* £50.

Here my Cash has increased and my Debts Receivable have decreased ; a Single Entry of this transaction would therefore be an incomplete one.

Jan. 4. Sold Goods to Mr. Barker for Cash £50.

This transaction may be divided into two parts :—

(i.) Sold Goods to Mr. Barker £50

(ii.) Mr. Barker pays me £50

whence it is seen to be a combination of the transactions on Jan. 2 and 3 and takes two "double entries," or it may be regarded as another instance of the transaction on Jan. 1 "*Sold Goods for Cash*" and be recorded by one double entry only. That is to say I need not enter the transaction in Barker's account at all, but if I do, I must enter it on both sides of his account : on the Dr. side to show that he became my debtor for the goods sold to him, and also on the Cr. side to show that he became my creditor for the money he paid me. And the effect of these two entries is of course to cancel each other, so that the balance of the account remains just as if I had not entered either of them in it.

We shall presently consider the double effect of some other transactions, and shall discuss the principle by which entries of transactions of all kinds are made in the Ledger, but before doing so it is necessary to inquire what different kinds of accounts are contained in the Ledger, and what is the distinction existing between them. This will be the subject of our next Lesson.

Enough has been said for the present to indicate that every transaction must be entered in two accounts, and that one of these entries must be a "debit" and the other a "credit." This is the leading principle of Double Entry Bookkeeping, and may be briefly stated thus: **Every Debit has its corresponding Credit, and every Credit its corresponding Debit.**

Summary of Lesson II.

(i.) An account is a record of a specific class of pecuniary rights and obligations.

(ii.) Accounts are kept in "Dr." and "Cr." form.

(iii.) A Debtor is one who owes something.

(iv.) A Creditor is one to whom something is due.

(v.) The terms Dr. and Cr. are used in a restricted and also in an enlarged sense.

(vi.) In their restricted sense they refer only to the particular transaction under consideration.

(vii.) In their enlarged sense they refer to Things and even to abstract Ideas.

(viii.) To balance an account is to find the difference of the sum of its Dr. and Cr. entries respectively, and to show on which side the difference falls.

(ix.) An account is said to have a debit balance when the sum of its debits exceeds the sum of its credits :—(and *vice versâ*).

(x.) A double entry must be made of every transaction.

(xi.) Every Debit must have a corresponding credit and every credit a corresponding Debit.

Questions on Lesson II.

1. What is an account? Discuss the following definitions of an account: (i.) An account is a statement referring to money matters. (ii.) An account is a record of commercial transactions. (iii.) "An account is a list of debts that have arisen between two parties." (iv.) "Accounts are registers of facts relating to money." (v.) "An account is a statement of money or money's worth received or expended." "A section of the Ledger set apart to record our commercial transactions with a given person or thing."

2. Explain the meaning of the terms "debtor" and "creditor," and show why Jones is called my creditor when he pays off part of his debt due to me. Discuss the enlarged application of these terms, and show the exact meaning of the following phrases: "Jones's account has been debited": "that is a debit entry": "several credits have been omitted": "Jones's account has a credit balance": "Debit Jones with the whole amount": "Does Jones's account 'balance'"?

3. How is an account balanced? What is meant by the "balance"? When is an account said to "balance"? Discuss the advantages and disadvantages of the "making up" method of balancing accounts.

4. What is the difference between Single and Double Entry? How does the necessity of Double Entry arise? What is the leading principle of Double Entry Bookkeeping?

LESSON III

THE PRINCIPLE OF THE CLASSIFICATION OF LEDGER ACCOUNTS

What different kinds of accounts are contained in the Ledger, and what is the distinction between them?

There are other books used in Bookkeeping besides the Ledger, but the Ledger is the King of all. The other books are used chiefly for making *chronological* records of transactions. These books are all subservient to the Ledger, which contains the final record of the facts of the business in the form best adapted to give useful information to its Proprietors. This book is therefore the first for the student to examine. To quote from De Morgan:—

> "The only book that need be explained is the Ledger. All the other books and the manner in which they are kept, important as they may be, have nothing to do with the main principle of the method."

By the usual classification, Ledger accounts are grouped into three divisions: Real, Personal, and Nominal.

> Under this classification all Accounts of things are called "*Real*" accounts (Latin *res*, a thing), Accounts of persons are called "Personal" accounts, and Accounts of Gains and Losses are called "Nominal" or "Fictitious" accounts.

The objections to this classification and nomenclature are :—

(i.) The distinction of Real from Personal accounts is one of subordinate importance, since both these classes of accounts represent parts of a man's property.

(ii.) The term "Real" as applied to accounts of things only, seems, from its modern use, to convey the idea that there is something *unreal* about the other accounts.

A suggestion for an improved classification that has received considerable attention is that accounts should be grouped thus—

I. PERSONAL.

II. IMPERSONAL. { 1. Real. 2. Nominal.

> "In Bookkeeping sense the term 'personal accounts' is applied only to accounts of persons with whom the merchant deals, while the term impersonal is applied to the several accounts in which the merchant's property is classified and his gains and losses recorded."—HAMILTON AND BALL. C.P.S.
>
> "Ledger accounts consist of two categories. I. Personal, II. Impersonal accounts, these latter being subdivided into (*a*) Real accounts, comprising Capital property, (*b*) Nominal accounts, comprising Revenue and Profit and Loss accounts."—VAN DE LINDE.

This classification is, however, in no sense an improvement, but the reverse. For the distinction between personal and real accounts is, as we have already pointed out, one of minor importance. Debts are parts of a man's property quite as much as Goods or Cash. The distinction is that the one species of property consists of a Right in some specific Material object, and the other is an Abstract Right. It is unwise to treat this distinction as fundamental. In many cases it is of little consequence whether an account be regarded as Real or Personal. For example, an account of Cash

placed in the hands of a Banker is, strictly speaking, a personal account, though it stands on a different footing to ordinary personal accounts, and is usually treated as a Real account. On the other hand, accounts of Bills are, strictly speaking, Real accounts, though in some respects they resemble Personal accounts. The distinction is in either case one of minor importance.

It is quite otherwise with the distinction between both these two classes of accounts and those that are usually called Nominal. The distinction here is *fundamental*, as we shall presently see.

Another classification is suggested and defended with much ability by Mr. CARISS in his carefully reasoned treatise on the subject, where he comes to the conclusion that all Nominal accounts, including Capital account, are purely *artificial*, and are created for the purpose of rectifying the inequalities of Exchanges, and that except for the value of this plan in enabling us to PROVE, there is no reason why Losses should be debited rather than credited, or why Capital account should be credited with increases thereto rather than debited.

He accordingly classifies the accounts in the Ledger as follows :—

(i.) FICTITIOUS accounts, or accounts of the property as a whole.

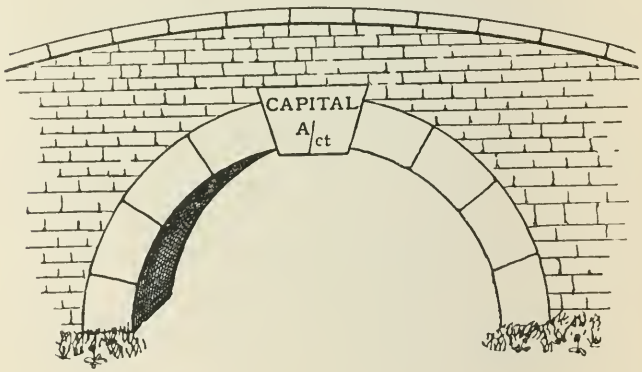
(ii.) REAL accounts, or accounts of its separate parts.

And this classification is much better than either of the other two, for it recognises that there are only two fundamentally diverse classes of accounts, and it sets the distinction in the right place.

The choice of terms for the two classes of accounts is, however, misleading. No doubt they were purposely chosen as tending to emphasize the deliberately expressed opinion that

"whatever is entered in the stock and profit and loss accounts consists only of artificial equivalents of the property comprised in the real accounts."

This reasoning appears to me to be based on a grave misconception of the meaning and use of nominal accounts, the chief of which is Capital account. **Capital account** is indeed the *key-stone of the arch* in Double Entry Bookkeeping. It will be well worth our while therefore to look at it closely, and to try and get at its root idea. We shall then be in a position to understand clearly the whole question of the classification of Ledger accounts.



Capital account was formerly called **Stock account**, because it shows the worth of the entire stock of a merchant's possessions (Cash, Goods, and Debts). It is probable that the historic origin of the account was the desire of the merchant to have, in addition to separate accounts of the separate parts of his property, a record of his entire "Stock" in one account.

We are not, however, concerned so much with the historic growth of Capital account as with its meaning and use in the

present-day stage of the science of Bookkeeping, and the scientific *raison d'être* of Capital account is simply this: It completes what would otherwise be an imperfect record of the facts.

A. B. has £1,000 Cash, and no other asset or liability whatever. He wishes to make a complete record of this one fact. Is this sufficient?

Dr.	CASH.	*Cr.*
Jan. 1. To Balance ...	£1000	

It may perhaps be enough for all ordinary every-day purposes, but that is not at all the question. Is it a complete record? Certainly not. Why not? Because it does not say to whom the property belongs. Perhaps it will be argued, the book is A. B.'s, and we may justly *infer* that the property recorded therein belongs to A. B. But Bookkeeping has nothing to do with inferences. It is contented with nothing less than a complete record of facts.

Consider, too, the matter even from the practical standpoint. A. B. may be suddenly incapacitated from attending to his own affairs. His friends, with a view to helping him, examine his books. They find this Cash account with its satisfactory balance, and they find the cash to correspond. They *presume* it all belongs to A. B., as they see in his book no account of any liability. Yet an uncomfortable feeling of doubt disturbs their minds, and makes them hesitate to use the funds for A. B.'s benefit, lest by chance there should be some other claimant.

If, however, they see on another page the entry

Dr.	A. B. CAPITAL ACCOUNT.	*Cr.*
	By Balance	£1000

their doubts all vanish, *the record is complete*, and they may proceed with quiet minds to deal with the money as may seem best.

When there is more than one proprietor in the business—that is, when the property (shown in the property accounts) has more than one owner, the true meaning and importance of Capital account is seen even more clearly.

Imagine a business conducted by two partners, A.B. and C.D. The property accounts scattered all over the Ledger show that the business is worth £3,000. Now to whom does this £3,000 belong? To whom is it owing? Who are the "Creditors"? Suppose we look at the beginning of the Ledger, and there find a memorandum that $\frac{2}{3}$ of the business is owned by A. and $\frac{1}{3}$ by B. This gives us the information we seek. True, but it is not the Bookkeeping method. If, however, we find in the Ledger the following accounts—

Dr.	A. B.'s CAPITAL.	*Cr.*
	By Balance	£2000

Dr.	C. D.'s CAPITAL.	*Cr.*
	By Balance	£1000

we have exactly the information we require in clear and unmistakable form, and the Double Entry record is COMPLETE.

The name "Capital" is a very misleading one as applied to the account called Stock or Capital account, and is the cause of much confusion in the minds of students. The warning is constantly held out, "*not to post any item to capital which should be charged to revenue*," and but little pains is taken to explain that the word "*capital*" as used here, means any property account, such as "Business Premises," &c.*

Capital account itself is not a second or double record of the property. It is not even a property account at all. That it shows the value of the property as a whole is a most valuable and necessary *consequent*, but is not the real reason why it forms an essential part of Double Entry.

Capital account is in reality a personal account, but it is a personal account of a very special kind, quite different from all other personal accounts. All other personal accounts are statements of the pecuniary rights or obligations of A. B. (the proprietor of the business). A. B. is the owner or *proprietor* of all these rights and obligations, and Capital account should (in order to show its true significance) be headed thus—

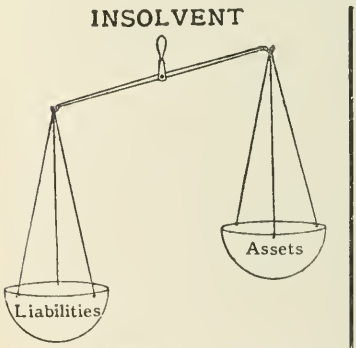
Dr.	A. B. CAPITALIST.	*Cr.*
	By Balance	£1000

* Unless the reference is to Capital accounts of a special class, only met with in Company Bookkeeping (Lesson 18).

or thus—

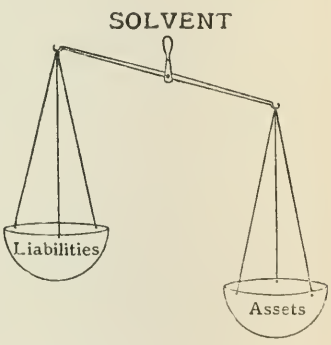
Dr.	A. B. (HIS CAPITAL ACCOUNT).	*Cr.*
	By Balance	£1000

The Capitalist is SOLVENT when his pecuniary rights (or assets) exceed his pecuniary obligations (or liabilities), but if his Liabilities exceed his Assets he is INSOLVENT. He is then no longer a Creditor to whom something is due, but a Debtor from whom something is due, and the balance of his Capital account will under such untoward circumstances be on the DR. side in exact accordance with the unhappy fact.



A. B.'s CAPITAL ACCOUNT.

Dr.	*Cr.*
To Balance £100	



A. B.'s CAPITAL ACCOUNT.

Dr.	*Cr.*
	By Balance £100

Capital account and its branches (Profit and Loss, &c.) are in fact accounts of the *proprietor* or *proprietors* of the property recorded in the other accounts.

This radical distinction between the personal account "Capital" and other personal accounts has important consequences, one of which is that the Capitalist's claim on the Assets of the business cannot be listened to until the just claims of all outside persons (not proprietors) have been met.

We are now in a position to arrive at a clear and simple classification of Ledger accounts.

The Ledger contains a record of Rights and Obligations. We may ask—

(i.) *What* Rights and Obligations?

(ii.) *Whose* Rights and Obligations?

Hence there are two classes of accounts, designed to answer these two questions respectively.

I.—PROPERTY ACCOUNTS.

These are in truth accounts of the Capital used in the business, and might properly be called "Capital accounts," if that term had not been misappropriated elsewhere.

Property accounts may be further subdivided. Property in material objects that are used in the conduct of a business but retained in the hands of the proprietor, such as Buildings, Machinery, &c., is called **Fixed Capital.**

All other property used in business is called **Floating Capital.** Of the different kinds of Floating Capital used in business we may distinguish three: (i.) *Money*, including Bank Notes, Bills of Exchange, and Bank balances. (ii.) *Merchandise*, including Raw Material, Manufactured Goods, &c., Crops in course of cultivation, and all things of every description bought and sold for purposes of gain. (iii.) *Debts.* These are of two kinds—(*a*) Debts Receivable, or debts due to the proprietors, (*b*) Debts Payable, or debts due by the proprietors. The latter must be regarded in Bookkeeping as Negative Capital, since they are deductions from the net value of the Capital owned by the Proprietor.

DIAGRAM OF
PROPERTY OR CAPITAL ACCOUNTS

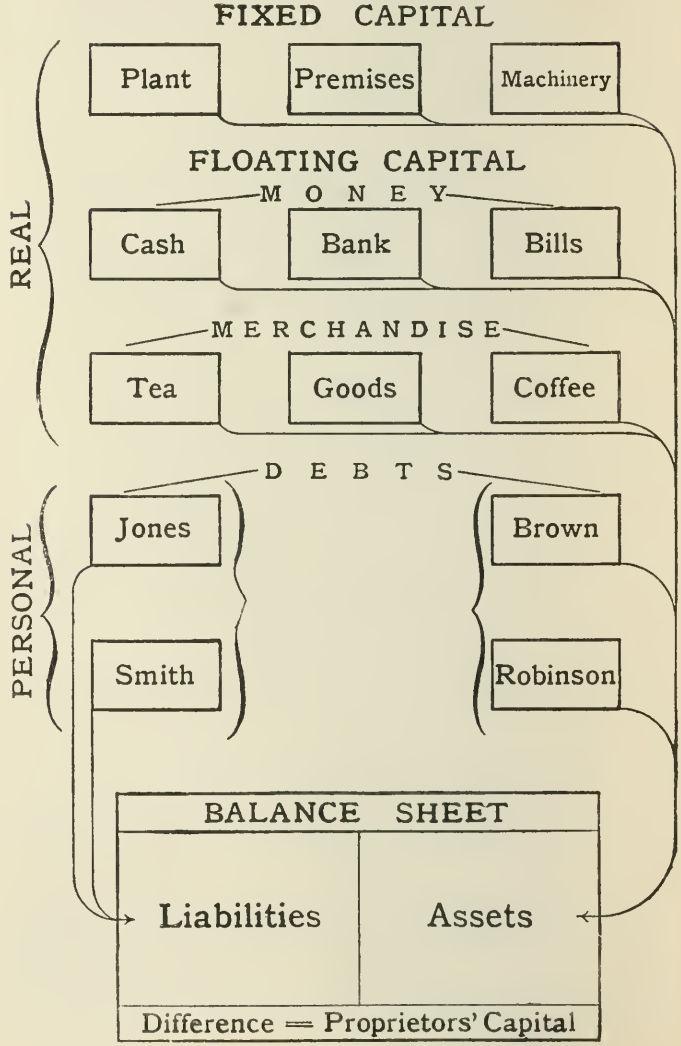
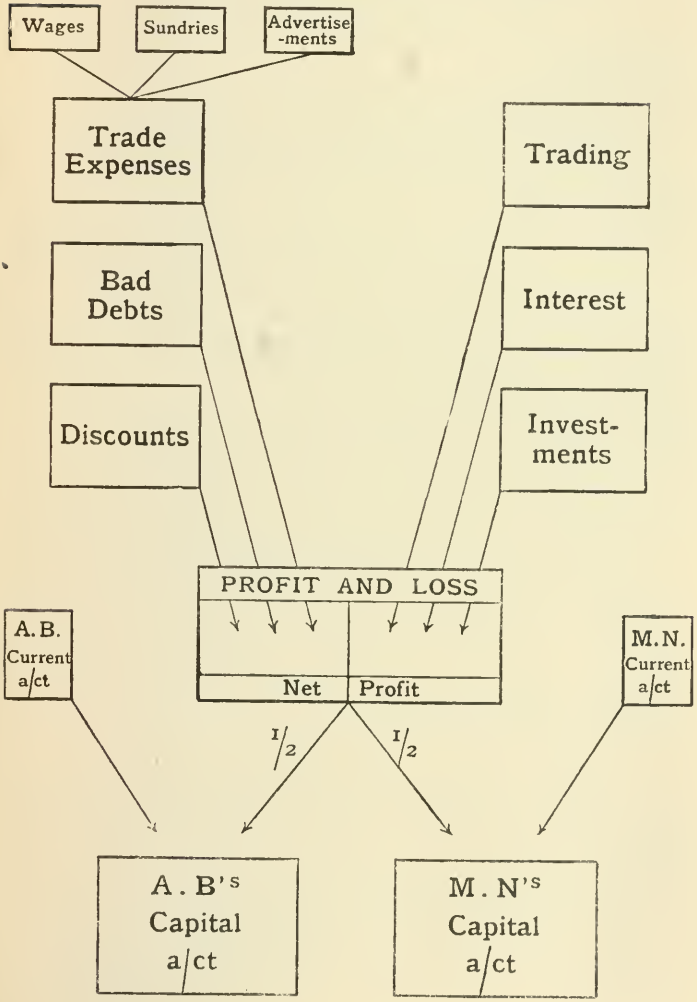


DIAGRAM OF

PROPRIETARY OR CAPITALIST ACCOUNTS



Accounts of Debts Payable and Receivable are "*Personal.*" All other property accounts are "*Real.*"

II.—PROPRIETARY ACCOUNTS.

These consist of—

(*a*) The Proprietor's own accounts called Capital accounts, with their subordinate Current or Private accounts.

(*b*) Profit and Loss account with its tributaries of all kinds and descriptions.

The distinction between Profit and Loss accounts and the Proprietor's own accounts is that the former contain records of *unappropriated Capital*, or additions to the Capital made since the last settlement, and *held in suspense*, until a full statement of all the circumstances enables a just result to be arrived at.

We may easily gather up the results of our inquiries in this section in the form of a diagram (see previous pages).

> There is no objection to retaining the usual nomenclature (Real, Personal, and Nominal) provided that we attach the right meaning to each of these words when we use them, remembering that both Real and Personal accounts are accounts of property, and that all Nominal accounts are accounts of the owners of that property, and I shall accordingly frequently use these terms in this sense in the forthcoming pages.

In our next lesson we will inquire how entries are made in the various classes of accounts.

Summary of Lesson III.

1. The Ledger or Book of Accounts is the chief Book used in Book-keeping.

2. Accounts are usually classed thus :—

(i.) Real accounts or Accounts of Things.

(ii.) Personal accounts or Accounts of Persons.

(iii.) Nominal accounts or Accounts of Gains and Losses.

(Objections to this classification.)

3. Suggested improvement :—

I. Personal.

II. Impersonal.

(*a*) Real.

(*b*) Nominal.

(Objections to this scheme.)

4. Cariss's Theory :—

I. *Fictitious,* or accounts of the property as a whole.

II. *Real,* or accounts of its separate parts.

5. Capital account is the keystone of the arch, inasmuch as it completes what would otherwise be an imperfect record of the facts.

6. The name Capital is misleading. Capital account is really "Capitalist's account." Property accounts are the real Capital accounts.

7. There are two classes of accounts—(i.) Property accounts, answering the question "What rights and obligations?" (ii.) Proprietary accounts, answering the question "Whose rights and obligations?"

8. Property accounts may be classified into Fixed Capital and Floating Capital accounts, the latter being subdivided into Accounts of Money, Merchandise, and Debts.

9. Proprietary accounts consist of all accounts of Gains and Losses together with the Proprietor's own accounts.

For questions see end of Lesson IV.

LESSON IV

THE PRINCIPLE ON WHICH ENTRIES ARE MADE IN LEDGER ACCOUNTS

By far the most important question with respect to Ledger entries is that of deciding in each case whether an account is to be *debited* or *credited*, and our business in this lesson is to consider on what principle this decision is arrived at, in the case of each of the various classes of accounts that we have just examined.

It might perhaps be supposed that as there are many different kinds of accounts there will be many different rules or laws to guide us in making entries in them—a serious prospect indeed for the student, if it were so. But let him not be alarmed. The matter is probably less intricate than he imagines.

We will take up the various classes of accounts in the following order—

1. Property accounts (real).
2. Property accounts (personal).
3. Proprietary accounts (Profit and Loss and its tributaries).
4. Proprietary accounts (Capital and Private).

I.—PROPERTY ACCOUNTS (REAL).

We have already seen from the example of a Cash account in Lesson II. (page 22) that accounts of things are debited (in order to show responsibility to the owner) when the things come IN, and credited (in order to show relief from that responsibility) when the things go OUT. Hence we might deduce the rule, Debit what comes IN, and Credit what goes OUT.

But it is important to remember that we are making a record of *pecuniary* rights, and therefore our rule, stated more precisely, will be:—

Debit VALUE IN.

Credit VALUE OUT.

(*a*) Note that it is *Value* IN—not *Things* coming IN. I may for instance have bargained for and bought certain Goods on condition of myself removing them. Then the pecuniary right is mine at once. Value comes IN, though perhaps the Goods do not, and the account of these Goods must be debited, on completion of the bargain.

On the other hand, Goods may be sent to me (not by my order) to take care of, or to sell for their owner if I can. In this case Goods come IN, but value (to me) does not. Hence Goods account cannot be debited.

Again, I may have in my warehouse certain Goods, the demand for which has entirely ceased and is not likely to revive. They cost me £100. The Goods themselves have not gone OUT, but their Value has. The account of these Goods ought therefore to be credited.

(*b*) Suppose that the account of a certain Thing—say Bricks and Tiles—has by some error been over-debited. Perhaps a careless clerk has entered £430 on the Dr. side instead of £340. Then value has been put IN or responsibility imposed on that account in excess of the facts. The error is most

easily corrected by taking the excess value (£90) OUT—that is, by crediting the account.

CAUTION.

No account of this description should ever be debited in respect of any transaction that does not involve a present Increase of Value.

In other words, keep to the rule "Debit value IN," but do not go beyond it.

For example, a London coal merchant rightly debits coal account with the cost of the carriage of the coal from the pit to his depot. Coal is worth more in London than at the pit's mouth. Value has therefore come IN.

But a shopkeeper ought not to debit Goods account with the rent of his shop. A shop may be necessary to his business, but it does not increase the present value of his goods.

II.—PROPERTY ACCOUNTS (PERSONAL).

Many beginners in Bookkeeping, who can make entries in Real accounts with ease, get confused when they are introduced to Personal accounts.

I believe that a large part of this mental confusion arises from not understanding at the outset that a personal account is a "property" account—an account, in fact, of a portion of the property of A. B. the merchant.

Regarded from this point of view, the question simplifies itself at once, and the rule for "entering" in personal accounts is quickly seen to be precisely the same as that for entering in real accounts, viz. :—

DEBIT VALUE IN.
CREDIT VALUE OUT.

Let us take an example by way of illustration :—

Suppose we have to make an entry in James Thacker's account in respect of the transaction

Sold Goods to J. Thacker £50.

The beginner is instructed to consider who it is that RECEIVES (somewhat), and by this convenient rule he soon decides that Thacker is the receiver, and therefore (quite correctly) debits Thacker. But convenient as this rule is, it does not cover all cases, nor indeed does it give the real reason for the debit entry. Perhaps it even diverts the mind from the real reason.

"*J. Thacker's*" account in A.B.'s ledger, if it bore its full title, would be headed somewhat as follows :—

"*An account of that portion of A.B.'s property which consists of a debt between himself and J. Thacker.*"

The real reason why A.B. debits Thacker is to show an IN-crease in that portion of his (A.B.'s) property.

Suppose at some subsequent date J. Thacker pays the cash to cancel this debit. Then £50 worth of A.B.'s property (Debts) have gone OUT.

Here are the entries of the two transactions, as they stand in J. Thacker's account in A.B.'s books.

Dr.	J. THACKER.		*Cr.*
Jan. 1. To Goods ...	£50	Jan. 20. By Cash	£50

Now take another example. On February 1 A.B., the merchant, buys £100 worth of Goods of William Patterson on credit. Should A.B. "debit" or "credit" Patterson, and *why?*

"Credit him, because he is the *Giver*," is an insufficient answer. Quite right to credit Patterson, and quite true Patterson is here the "Giver," but the true reason why A.B. credits Patterson is that there has been an OUT-going of his property (in respect of an increased responsibility towards Patterson).

We speak of the Incoming and Outgoing of Liabilities in an opposite way to that in which we speak of the Incoming and Outgoing of Assets. An increase of Liability is an OUTgoing rather than an incoming, and a decrease of Liability is a return or INcoming of that Liability back to the one who issued or created it against himself.

To make this clear, take the familiar Example of a Postal Order. When the Post Office people give a Postal Order for £1, this is an Issue or OUTgoing of their Liabilities. When the money is paid, the Postal Order (the symbol of their Liability) comes back to them, indicating the return—or INcoming—or cancelling—of the liability in question.

A.B. therefore, in the case before us, credits Patterson to record an OUTgoing of his property (so far as Patterson is concerned), and when A.B. "settles the account" this liability returns to him—that is, there is an INcoming of his property, so far as the extinction of this liability is concerned.

When these two transactions have been entered the account will stand as below :—

Dr.	W. PATTERSON.		*Cr.*
Feb. 25. To Cash ...	£100	Feb. 1. By Goods ...	£100

We see then that the simple "IN and OUT" rule holds good for all possible cases affecting accounts of persons—viz.

1. Creation of Rights against a Person
   = Property IN.
2. Extinction of those rights
   = Property OUT.
3. Creation of Responsibilities towards a Person
   = Property OUT.
4. Extinction of those responsibilities
   = Property IN.

Notice now that there are some cases where the old-fashioned rule "*Debit the receiver, credit the giver*" breaks down altogether. Take for example the transaction *January* 10. *Accept composition of* 10/ *in the £ on Wilson's debt of £40, and write off the balance as a bad debt.*

Here the first part of the transaction as it affects Wilson's account is clear enough. We credit Wilson £20 either by the rule "credit the giver," or by the application of the more simple and more accurate IN and OUT rule; but how does the old-fashioned rule help us about the last part of the business? For Wilson "gives" £20 only, and yet if we only credit him with *one* £20 we leave a balance of £20 in his account, as though he still owed us that amount. But having agreed to accept half of the debt as payment in full, Wilson is released of further responsibility in respect of this debt, and the account ought to show this.

Now see how simply this is done by the IN and OUT principle. As soon as we have agreed to waive half of our legal right against Wilson, part of our own property (Rights of Action) has vanished, or gone OUT. We therefore credit Wilson's account with a second £20, and the account is balanced and closed to agree with the facts.

Dr. WILSON. *Cr.*

Jan. 1. To Balance ...	£40	Jan. 10. By Composition ...	£20
		,, ,, ,, Bad Debt ...	20
	£40		£40

Wilson's account is now "closed," to indicate that it no longer forms a portion of my assets.

From these examples it is clear that personal accounts are really property accounts, and can only be consistently and intelligently kept on this principle.

II.—PROPRIETARY ACCOUNTS.

(*a*) *Profit and Loss, &c.*

It would appear at first sight that we have now arrived at a reversal of our previous rules, and that whilst property accounts have for their motto

Dr. IN	*Cr.* OUT

Profit and Loss accounts of all kinds should be inscribed

Dr OUT	*Cr.* IN

For have we not been taught to "*Debit our Losses and Credit our Gains,*" and do not Losses go "out" and Gains come "in"?

There is something very specious about this reasoning, and yet it needs but a very little careful thinking to assure us of its fallacy.

Take by way of example the transaction *Received* £10 *of E. Jewson for professional Services.* We are told to debit Cash because £10 Cash comes IN—(Yes, and what then?). Then we must credit "P. and L." because it is a gain of £10 (that is, because £10 comes IN). Surely this reasoning is very lame. No wonder those who regard the matter from this point of view call these accounts Fictitious! There is only *one* £10 coming IN, not *two.* What then is the explanation?

We have only to remind ourselves that a "Transaction" is an "Exchange" (and that the very word exchange implies a

simultaneous INcoming and OUTgoing) to let in a flood of light upon the whole question.

£10 Cash came IN, what was it that went OUT? Was it not my professional Services? Plainly it was, and here lies the true solution of the mystery.

Profit is the reward of Labour, *i.e.*, of Services of all kinds. Profit and Loss account may therefore fitly be regarded as a sort of Labour or Services account, wherein the money value of the skill, abilities, strength, services, and *advantages of every kind* and description that we receive from the outside public, or that come IN, are set forth on the Dr. side, and the money value of the skill, abilities, strength, and *advantages of every kind* that we part with, or that go OUT, appear on the Cr. side. A few illustrations will help to make this clear.

(i.) The profits of a doctor are the result of an exchange of his professional skill for money or debts. "Cash" or "Debts Receivable" come IN; Services go OUT. It is therefore perfectly consistent with the IN and OUT principle that he should debit Cash, and credit Profit and Loss or Services account.

(ii.) The profits of a merchant are the result of buying goods when they are super-abundant, and selling them for a higher price when they are more in demand. Such profits represent the money value of the industry and commercial knowledge that have been put forth by him. Services have gone OUT. He therefore credits P. and L. or Services account.

(iii.) There are few ways of making profit that do not involve some necessary expenses or losses. These are set against the Gains, or Gross Profit as a diminution thereof, and the balance that remains is called NET PROFIT, (or if the Losses and Expenses exceed the Gross Gains the balance is called NET LOSS). Suppose a shopkeeper pays £50 for the rent of his shop. Here is £50 Cash going OUT plainly enough. What is it that comes IN? Is it not £50 worth of Services in the shape of use or premises? Therefore "Labour" or "Services" or "P. & L." account is suitably and properly debited with this amount.

Notice that the "money value" of these services is in all cases set down at the price given or received in exchange. For instance, the professional services that went OUT from me

in exchange for Jewson's £10, might have cost me many an anxious day and many a sleepless night, and might be worth to Jewson more than tongue can tell; but having exchanged them for £10 Cash, I set them down at that amount in my Profit and Loss account.

The same rule is observed with respect to Services IN. They are always estimated and priced out at the money value of the Asset given in exchange.

As we shall have abundant opportunity for further illustrations of this principle, we pass on now to consider the principle by which entries are made in the accounts of the proprietors of the business.

IV.—PROPRIETARY ACCOUNTS.

(*b*) *Proprietor's Capital and Current Accounts.*

When a man embarks on any business enterprise with a certain sum of money as Capital, he thereby confers on the business, at one and the same time, an exactly equivalent amount of rights and responsibilities. Suppose an individual A. B. starts as a merchant with a Capital of £4,000. Then *A.B. the merchant* has received from A. B. the private individual £4,000 Cash—and at the same time and by the same act A. B. the merchant has become responsible to A. B. the Capitalist for the same amount.

Therefore the books *of the business* have to record an INcoming of Cash and an OUTgoing of Responsibility.

This they do in the following way :—

Dr. CASH. *Cr.*

Cash—IN

Jan. 1.	To Capital ...	£4,000		

Dr.	A. B. CAPITALIST. Responsibility—OUT	*Cr.*
	Jan. 1. By Cash ..	£4,000

For, as we have already seen, an acceptance or outgoing of responsibility is credited, just as an outgoing of any asset is.

When A. B. the private individual withdraws any of his capital—say £100—the business parts with £100 Cash—this is £100 value OUT—at the same time and by the same act the business receives back £100 of its outstanding responsibility towards the Capitalist—this is £100 (value) IN.

Here are the entries :—

Dr.	CASH.	*Cr.*
Jan. 1. To A. B. ... £4,000	Jan. 31. By A. B. ...	£100

Dr.	A. B. CAPITAL.	*Cr.*
Jan. 31. To Cash drawing £100	Jan. 1. By Cash	£4,000

Property cannot exist without an owner. Therefore every business or undertaking that has pecuniary rights to record must also have equivalent pecuniary responsibilities to record, for it is responsible to the proprietors for just so much of the Assets as happen at any moment to be in excess of its *outside* Liabilities.

Hence it follows that all the Profits and Losses of a business attach to the proprietors from the moment they are made. P. and L. account is indeed merely a tributary river, having many tributary streamlets of its own, all of which flow into Capital account, as was shown in Lesson III.

P. and L. being thus in reality a part of Capital account, can be regarded if we please from the same point of view. Every shilling of profit gained involves an OUTgoing of another shilling's worth of Responsibility of the business towards its master. Every shilling of loss involves a return or INcoming of a shilling's worth of the Responsibility that had previously issued towards him.

It does not in the least matter whether entries in Profit and Loss accounts are determined on this principle, or on the principle of Services IN *versus* Services OUT. Both considerations are equally true, and the application of either the one or the other leads to precisely the same result.

The proprietor's "current" or "private" accounts are likewise merely branches or parts of Capital account. These two are therefore kept on the same plan.

In fact, we see now that one uniform principle governs the keeping of every kind of account in the Ledger. It is all a question of Value IN *versus* Value OUT.

Value IN takes two forms :—

(*a*) Increased Rights.

(*b*) Decreased Responsibilities.

Value OUT also takes two forms :—

(*a*) Decreased Rights.

(*b*) Increased Responsibilities.

Hence there is one most simple and absolutely comprehensive rule for making entries in accounts of every kind, viz. :—

Debit Value IN.

Credit Value OUT.

Summary of Lesson IV.

1. The most important question with respect to Ledger entries is that of deciding whether to debit an account or to credit it.

2. The principle that guides us in this decision is exceedingly simple.

3. With respect to "real" accounts, the rule Debit what comes IN and credit what goes OUT must be understood to mean Debit "Value IN" and Credit "Value OUT."

4. This rule should be strictly adhered to. No real account should be debited with any expense that does not add to the value of the property.

5. The rule for Personal Accounts, "*Debit the Receiver, Credit the Giver*," is a convenient aid to the memory, but cannot be depended on in all cases.

6. The only sound rule for these accounts is to Debit Value IN and Credit Value OUT.

7. An Outgoing (or Increase) of Liabilities, has the same effect as an Outgoing (or Decrease) of Assets.

8. Creation of Rights against a person, or Extinction of Responsibility towards a person = Property IN.

9. Creation of Responsibility towards a person or Extinction of Rights against a person = Property OUT.

10. Profit and Loss account is a kind of "Labour" or "Services" account.

11. The *value* of Services IN is debited to Services (or P. & L.) account, and the *value* of Services OUT is credited.

12. This "value" is in all cases reckoned at the amount of money value given or received in Exchange.

13. When a business is started by a Capitalist there is an OUTgoing of Responsibility on the part of the business towards the Proprietor *equivalent* to the value of the Capital.

14. Hence "Capital Account" (= Capitalist's Account) is credited with this OUTgoing.

15. When the Proprietor withdraws value, the business gives out this Value and receives back in exchange just so much returned or extinguished responsibility. Therefore "Capital Account" is debited.

16. There is therefore one rule for all classes of accounts—Debit Value IN; Credit Value OUT.

Questions and Exercises on Lessons III. and IV.

1. Why is the Ledger the most important Book in Bookkeeping? What three kinds of accounts are there according to the usual classification. Give one example of each kind, each example to contain ten entries and to be balanced.

2. What are the chief objections to this classification, and what alternative classifications have been suggested? What are the objections to these suggestions?

3. Explain carefully the fundamental distinction between "Nominal" accounts on the one hand, and Real and Personal Accounts on the other hand.

4. Explain and justify the application of the terms Dr. and Cr. to an ordinary "Capital" account.

5. Explain the application of the IN and OUT principle

(*a*) to Personal Accounts.

(*b*) to Profit and Loss Accounts.

(*c*) to Capital Accounts.

6. Make a diagram of the various classes of accounts in the Ledger.

7. Make out and balance the following Property Accounts, assuming yourself to be the Proprietor.

A.—**Premises Account.**

Jan. 1, Value of Business Premises, £1,000. Jan. 20, Paid for Additions and Improvements thereto, £150. Jan. 30, Destroyed by Fire part of above (not insured) valued at £200.

B.—**Cash Account.**

Jan. 1, Cash in hand, £500. Jan. 3, Paid to John Stewart, £130. Jan. 10, Received of James Watts, £150. Jan. 12, Bought Goods for Cash, £100. Jan. 15, Paid for Wages of Clerks, £10. Jan. 17, Sold Goods for Cash, £200. Jan. 20, Paid for Improvements to Premises, £150. Jan. 21, Received of R. Rutherford, £300. Jan. 22, Paid for Rates, &c., £5. Jan. 30, Took Cash for Personal Expenses, £20. Jan. 31, Paid into Bank, £400.

C.—**Goods Account.**

Jan. 1, Stock of Goods on Hand, £2,000. Jan. 5, Bought Goods of J. Stewart, £70. Jan. 6, Sold Goods to J. Watts, £170. Jan. 12, Bought

Goods for Cash, £100. Jan. 17, Sold Goods for Cash, £200. Jan. 18, Sold Goods to Rutherford, £450. Jan. 19, Sold Goods to Dixon, £110. Jan. 31, Profit on Goods * (enter on Dr. side), £250.

* This will be fully explained in the next chapter.

D.—**J. Stewart's Account.**

Jan. 1, I owed J. Stewart, £600. Jan. 3, Paid J. Stewart, £130. Jan. 5, Bought Goods of J. Stewart, £70.

E.—**J. Watts's Account.**

Jan. 1, J. Watts owed me, £60. Jan. 6, Sold Goods to J. Watts, £170. Jan. 10, Received of J. Watts, £150. Jan. 25, Watts sends in account for Sundry Repairs (not paid), £15.

8. Make out and balance the following Proprietary (or Nominal) Accounts :—

A.—**Trade Expenses Account.**

Jan. 15, Paid for Wages, £10. Jan. 22, Paid for Rates, &c., £5. Jan. 25, Watts sends in account for Sundry Repairs (not paid), £15.

This account is to be balanced, and the balance carried to the opposite side of the next account (Profit and Loss).

B.—**Profit and Loss Account.**

Jan. 30, Part of Premises destroyed by Fire, £200. Jan. 31, Gross Profit on Goods sold, £250. Jan. 31, Loss by Bad Debt, £6. Jan. 31, Trade Expenses (see above).

P. and L. Account is now to be balanced and the balance carried to Capital Account below.

C.—**Capital Account.**

Jan. 1, Capital at starting, £4,000. Jan. 30, Took Cash out of business for Private Expenses, £20. Jan. 31, Net Profit (see above).

NOTE.—Advanced Students need not work out Exercises 7 and 8.

LESSON V

THE PRINCIPLE OF "PROVING"

We have shown that the Ledger is a classified record of commercial transactions. We shall now show the value of this classified arrangement in leading up to two important tables of Results, arrived at by independent methods, and agreeing with each other.

All facts affecting the property lead up to and affect the Final Balance Sheet. All facts affecting the proprietors lead up to and affect the Profit and Loss Account and Capital Account.

The agreement of these two tables of Results constitutes the **Proving of the Books** which has been already referred to, and which we propose now to illustrate by two simple examples, showing theoretically how a Ledger is opened and kept by Double Entry and Proved by the agreement of Capital Account and Balance Sheet.

Example I.

I am a professional man, and on Jan. 1, 1894, my affairs stood as follows :—I had £100 Cash, Smith owed me £30, and Jones owed me £10; on the other hand I owed Brown £10.

It is necessary to give a complete statement of assets and liabilities, such as that set forth above, before we can "open the

Ledger," that is to say, before we can make the opening entries necessary to begin with. This statement is usually set out in the following form :—

BALANCE SHEET.

LIABILITIES.	January 1.			ASSETS.			
	£	s.	d.		£	s.	d.
Brown	10	0	0	Cash	100	0	0
Balance Capital ...	130	0	0	Smith	30	0	0
				Jones	10	0	0
	£140	0	0		£140	0	0

We shall understand from what has already been said, that each of the assets are debtors to the Proprietor, whilst the liabilities are creditors. We shall expect to find the Ledger accounts therefore as below, where it will be noticed we have left out all words, dates, &c., that the attention of the student may be concentrated on the theory of the subject.

CASH		JONES		SMITH		BROWN		CAPITAL	
Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
100		10		30			10		130

The opening of the Ledger is not completed until all the entries in the balance sheet including the "balance" (viz., Capital) have been duly entered in the Ledger. Capital Account is my own account, and as it has been shown that I am the "Creditor" with respect to the property in my business, the final "opening entry" in the Ledger is to "credit" Capital account with £130.

Notice that the total amount of all the Ledger "debits" is

equal to the total amount of all the Ledger "credits," that is the Ledger "*balances*." We must now enter the following transactions, which took place during the month of January :—

1. *Professional Services rendered by me to Jones* £20.
2. *Professional Services rendered by me to Smith* 20.
3. *Jones paid me* . . . . . 30.
4. *Business Expenses* . . . . . 15.
5. *Personal Expenses* . . . . . 12.

Each of these transactions must, according to the principles of Double Entry, appear twice in the Ledger. Let us examine them :

1. It is easy to see that Jones has increased his indebtedness to me by £20. Jones must therefore be debited £20. This increase of property £20 (D. R.) not being accompanied by any corresponding decrease of property, is a *Gain*, that is, it affects my own relation to the business. The business in fact owes me £20 more than it did. There has been an OUTgoing of its liability towards me. Instead, however, of crediting Capital *at once* it is customary and convenient to collect all Gains and Losses into the Intermediate Proprietary Account, "Profit and Loss." We will therefore credit Profit and Loss Account.

Notice how readily the double effect of the transaction is perceived by regarding P. and L. as a Services or Labour Account, when the idea at once presents itself.

D. R. (Jones) IN ∴ Debit Jones.
Services (P. and L.) OUT ∴ Credit P. and L.

2. The second transaction is exactly like the first.

3. The third affects two property accounts.

Cash IN ∴ Debit Cash.
D. R. (Jones) OUT ∴ Credit Jones.

4. The fourth transaction involves Cash out, and it also involves a Loss to the business arising out of some services rendered to me. I shall therefore debit P. and L. and credit Cash (Services IN—Cash OUT).

5. The last transaction also involves Cash going OUT, and it may be said also to involve a Loss, but as this Loss has not arisen out of any business or professional matter, but is a purely personal concern, it is not usual to enter it in P. and L., but to regard it as a withdrawal of Capital. By this act of withdrawal, the business parts with £10 worth of Cash and receives back in exchange £10 worth of its original responsibility towards the proprietor. We shall therefore debit Capital and credit Cash.

Responsibility (to Proprietor) IN }
Cash OUT }

When all these transactions have been "entered" the Ledger will appear thus :—

LEDGER.

Cash		Jones		Brown		Smith		P. & L.		Capital	
Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
100	15	10	30		10	30		15	20	12	130
30	12	20				20			20		

We have now arrived at the crucial stage of **Proving.**

It will be remembered that this is done by making Capital Account and Balance Sheet agree. Suppose we take the Balance Sheet first. The Balance Sheet forms no part of the

Ledger. It is merely a statement of Assets and Liabilities. It is clear that these must be derived from the property accounts in the Ledger. If we take the balance of each of these accounts and enter these balances on the opposite side to that on which they appear in the Ledger (that is, debit balances as Assets, and credit balances as Liabilities), we shall have the following result :—

FINAL BALANCE SHEET.

LIABILITIES.			January 31.			ASSETS.				
			£	s.	d.				£	s. d.
Brown	...	...	10	0	0	Cash	...	...	103	0 0
CAPITAL	...	...	143	0	0	Smith	...	...	50	0 0
			£153	0	0				£153	0 0

The above Balance Sheet shows that £143 is now due to me from the business.

Now I will draw up a Profit and Loss Account and Capital Account (from the Ledger), to see whether I can PROVE.

Dr.	PROFIT AND LOSS.			*Cr.*				
	£	s.	d.				£	s. d.
Business Expenses ..	15	0	0	Jones	...	...	20	0 0
NET PROFIT ...	25	0	0	Smith	...	...	20	0 0
	£40	0	0				£40	0 0

The balance of P. and L. (Net Profit) instead of being carried forward to begin the next month, as in the case of a property account, is carried to the credit of Capital account.

Consider *why this is done.* The credits in P. and L. indicate an outgoing of responsibility on the part of the business towards its proprietor. The debits indicate a withdrawal or return of a certain portion of that

responsibility. Why were these debits and credits not made *immediately* in the proprietor's own account? Simply because it was desired to focus all the gains and losses accruing to the business in a certain period and find out their net result before definitely and finally appropriating them. P. and L. is a kind of umpire who holds the stakes whilst the result is in suspense, but hands them over when the issue is clearly manifest. Now that all accounts are balanced, the result is no longer in doubt, and the net increase of responsibility on the part of the business to its owner (viz., £25) may be definitely shifted from its temporary lodging to its rightful abode.

Dr. CAPITAL. *Cr.*

		£	s.	d.			£	s.	d.
Jan. 31.	To Personal Exs.	12	0	0	Jan. 1.	By Balance ...	130	0	0
Feb. 1.	,, Balance	143	0	0	,, 31.	,, Net Profit	25	0	0
		£155	0	0			155	0	0
					Feb. 1.	By Balance ...	£143	0	0

On balancing Capital I find that I am worth £143. I carry the balance forward (opposite side) to begin the next month, and as the amount is exactly the same as that shown by the Balance Sheet I have the satisfaction of knowing that I have

PROVED MY BOOKS.

The following is the state of the Ledger after balancing and Proving :—

LEDGER.

Cash		Jones		Brown		Smith		P. & L.		Capital	
Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
100	15	10	30		10	30		15	20	12	130
30	12	20				20		25	20	143	25
	103	30	30			50		40	40	155	155
130	130										143
103											

From the working of the foregoing example it is a very simple matter to deduce the following

RULES.

1. *Open the Ledger*, from Statement of Assets and Liabilities.

Note.—The Ledger only needs "opening" once, viz., at the starting of the business. The process is not again needed at the beginning of each successive period. The balances brought down at the end of any one period are carried forward below the double line (or to a fresh page) for the express purpose of being ready to receive new entries in the new period of time now entered upon. This process therefore of "Opening the Ledger," so familiar to the student from constant repetition, is a comparatively rare operation in practical office work.

2. *Enter the transactions*, taking care that debits and credits are equalized throughout.

3. *Balance all Property Accounts*, and thence draw up a Balance Sheet.

4. *Balance Profit and Loss* account and carry to Capital. Then balance Capital Account.

If Capital Account and Balance Sheet agree, you have proved your books.

ADJUSTMENT OF PROPERTY ACCOUNTS.

In the example we have just been considering, we have assumed that the balance of each of the Property accounts accurately represented the value of that Property. And this always *would* be the case, *if* we could ensure that every time an increase or decrease occurred in the value of any class of property, an entry were immediately made in the books recording in the account concerned the exact amount of such increase or decrease.

There are several reasons why it is impossible in practice to ensure that this is done :

(i.) There is a gradual, constant, and imperceptible deteriora-

tion in the value of certain kinds of property, the amount of which can only be determined by careful examination of the condition of the property at fixed intervals.

(ii.) A deficiency may occur through theft, leakage, or some other cause outside the knowledge of the proprietor.

(iii.) A discrepancy arises in accounts of merchandise through the difference between their *Cost* prices and their *selling* prices.

We shall now work out an extremely simple example of a Mercantile Ledger, in order to illustrate the last of these three points. We shall then try to discover *a general Law* which will guide us in all cases of this kind.

Example II.

The Ledger below explains the condition of affairs on July 1.

Dr. Cash	*Cr.*	*Dr.* Goods	*Cr.*	*Dr.* Capital	*Cr.*
1,000		2,000			3,000

During the month I effect the following transactions :—

1. *Sold Goods to J. West* £400
2. *Bought Goods of H. East* 500
3. *Sold Goods for Cash* 300
4. *Trade Expenses* 25
5. *Private Expenses* 25

There is a difficulty about the first of these transactions which you may not at once perceive. *Am I to enter this*

transaction at Cost Price or at Selling Price? (For these Goods which I have sold to J. West for £400, as a matter of fact cost only £300.) Let us think. If we debit West *only* £300 we shall misrepresent the value of the property account "West," for West having agreed to give me £400 for the Goods, now owes me that amount, therefore my D. R. have increased to that extent. On the other hand, if we credit Goods £400, we shall misrepresent the value of the property account "Goods," for this has diminished only by £300, that being the price I gave for the Goods.

We see in point of fact that there is here a gain of £100, so that the only way to enter this transaction *correctly* would be to make a "triple entry," viz.—

Debit West	£400
Credit Goods	£300
Credit P. and L.	£100

(which is not by the way *called* a triple entry, but a double entry, because the debits are equal to the credits).

In the great majority of mercantile transactions however the above method would be absolutely impossible. To find out the exact *cost* of each parcel of Goods sold is quite impracticable in real life. The merchant therefore in practice credits Goods account with all sales at *selling* prices, aware that he is thereby creating a discrepancy in Goods account, but waiting till balancing time comes to rectify this error in the way we shall presently discover.

I accordingly follow the usual practice, and enter the transactions in my Ledger as follows :—

1. West Dr. and Goods Cr.	£400
2. Goods Dr. and East Cr.	500
3. Cash Dr. and Goods Cr.	300
4. P. and L. Dr. and Cash Cr.	25
5. Capital Dr. and Cash Cr.	25

So that when I have made the entries my Ledger will appear thus :—

LEDGER.

Cash		Goods		West		East		P. & L.		Capital	
Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
1,000	25	2,000	400	400			500	25		25	3,000
300	25	500	300								

I now proceed to balance and "prove," and will begin with Goods Account. The value of this Property appears *from the books* to be £1,800, but as I know this value is not to be depended on, I shall make a careful examination of the property itself, that is, I shall value every article of merchandise still remaining unsold on my premises. My junior assistants "don't see the use of all this trouble and fuss," but at last, with the help of juniors and seniors too, I discover that, at a fair valuation, I have £1,950 of Goods in stock.

Here is *a discrepancy between book value and actual value* of £150, and it is at once clear that this discrepancy arises from over-crediting Goods account, and represents the profit made by selling Goods at a higher price than that at which I bought them.

Perhaps you have seen the butcher place a piece of meat in the scales against a 4 lb. weight, and finding the 4 lb. weight too heavy, instead of taking it away and substituting $3\frac{3}{4}$ lb. or some such other collection of weights, he throws one or two other small weights into the other scale until the balance is adjusted. This adjustment by the making-up method is precisely analogous to the Bookkeeping plan. The Butcher and the Bookkeeper are evidently kindred spirits, in this respect at least, that they each have an objection to taking out weights that have once been put into the scale.

So here, having discovered by my troublesome stocktaking process that I have put £150 too much into the Cr. scale, instead of abstracting £150 from the Cr. side, I throw in an additional £150 on the Dr. side. In other words I debit "Goods" and credit "P. and L." £150. It is easy to deduce from this example a

GENERAL LAW

for the balancing of property accounts *of all kinds*. Whenever we have any reason to suspect that there may be a variation between the book value and the actual value of any property, we must obtain in some way (independently of the books) a just valuation of the property in question. This is the true "balance" of the account of that property. The amount required to "adjust" this to the book value must be entered on the Dr. or Cr. side of the account, and then this amount must be transferred to the opposite side of *P. and L.*, as a loss or a gain, as the case may be.

This law, which we will call the law of Adjustment, is one of the utmost importance, and the student must try to understand it thoroughly and to bear it in mind during all his subsequent investigations.

Having balanced my Ledger, it now appears thus :—

Cash		Goods		West		East		P. & L.		Capital	
Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
1,000	25	2,000	400	400			500	25	150	25	3,000
300	25	500	300					125		3,100	125
	1,250	150	1,950					150	150	3,125	3,125
1,300	1,300	2,650	2,650								3,100
1,250		1,950									

On balancing P. and L. I find that I have made £125 *Net Profit.* This I carry to Capital Account, and find by balancing it that £3,100 is due to me from the business, and this amount I carry forward as the first entry in the new Capital account.

BALANCE SHEET.

LIABILITIES.	July 31.			ASSETS.			
East	500	0	0	Cash	1,250	0	0
Balance Net Capital ...	3,100	0	0	Goods	1,950	0	0
				West	400	0	0
	3,600	0	0		3,600	0	0

The Balance Sheet shows that I am "solvent" by £3,100, which agrees with the statement given by Capital account.

The further insight into the methods of keeping and balancing a Ledger, gained by this latter example, enables us to develop our rules, which will be seen to be simply a Summary of the present lesson.

RULES

FOR KEEPING AND BALANCING A LEDGER.

1. *Open all Accounts:*

From the Balance Sheet at starting, not forgetting Capital Account. Remember that all items *change sides* on being transferred from the Balance Sheet to the Ledger.

2. *Enter the Transactions.*

Every debit must have a credit or credits of equal value. And *vice versâ.*

3. *Balance all Property Accounts* (see Diagram page 42).

(*a*) In each case test the "book" value as far as practicable (by valuation or otherwise).

(*b*) "Adjust" by transfer if necessary.

(*c*) Carry forward Balance of *actual value* as first entry in new Property account.

(*d*) Collect all balances of Property on a sheet of paper, called Balance Sheet.

4. *Balance all Proprietary Accounts* (see Diagram, page 43).

(*a*) *Subsidiary Accounts* such as Trade Expenses, &c., carrying balance to P. and L.

[A fuller consideration of "Subsidiary" Accounts is reserved for Lesson VIII.]

(*b*) *Secondary Accounts*, or those that flow immediately into Capital, such as Private Expenses Account and P. and L.

The balance of P. and L. to be carried to Capital.

Questions on Lesson V.

1. Show how the classified record of commercial transactions contained in the Ledger leads to two useful and important tables of results.

2. What are these tables of results called, and from what classes of accounts are they respectively derived?

3. What special significance attaches to these "balances" of these two tables of results?

4. How is the Ledger "proved"?

5. What is meant by "opening the Ledger"?

6. What is the chief thing to be remembered in making Ledger entries of transactions?

7. How is a Balance Sheet drawn up from a Ledger?

8. What is done with the balance of P. and L. Account? Why is it thus dealt with?

9. Why does the balance of Goods Account very rarely show the true value of Goods remaining on hand?

10. Why ought the balance of Cash Account *always* to indicate the exact amount of Cash in Hand?

11. Give general reasons to account for the discrepancy between the book value and the actual value of other Property accounts?

12. Give general rules for balancing any property account where there may be reason to suspect any discrepancy of this kind.

13. Work out and prove the following exercise in skeleton form (amounts only) as in the examples given.

1894.—April 1, Cash in hand, £200. Goods in stock, £4,500. Cash in bank, £2,000. Due to A. Milne, £250. Due from H. Turner, £300. W. Jemmett's Capital, £3,500. G. Scott's Capital, £3,250.

(Profits to be equally divided.)

April 3, Sold Goods to H. Faber, £1,000. April 4, Sold Goods for Cash, £400. April 6, Services rendered to L. Bacon, £50. April 7, Bought Goods of A. Milne, £150. April 10, Sold Goods to H. Turner, £100. April 12, Paid for Wages (enter in Trade Expenses Account), £20. April 14, Received of H. Faber, £600. April 15, Paid into Bank, £1000. April 18, Paid for Rent (enter in Trade Expenses Account), £40. April 19, W. Jemmett took for Private Use, £50. April 22, Sold Goods to R. Rutland, £700. April 23, Bought Goods of D. Ralph, £650. April 25, Sundry small Trade Expenses, £30. April 30, Monthly Cash Sales. £144.

The result of a careful valuation of my Stock of Goods at the end of the month shows that they are worth £3,370.

Other property accounts may be fairly taken at their Book value.

(NOTE.—Advanced students should omit the above exercise.)

LESSON VI

THE PRINCIPLE OF THE CHRONOLOGICAL OR PREPARATORY RECORD.

THE great principle of the *Chronological* record of Transactions is that it must be made so as to *pave the way* for the Classified record, that is to say, it must in some distinct manner *point out* what accounts have to be debited and credited in respect of each Transaction as it takes place. It is manifest that there are two processes in the work of Classification.

(*a*) *The act of deciding* what accounts have to be debited and credited in respect of any given transaction.

(*b*) *The act of making the record* in the accounts that have thus been fixed upon as the appropriate ones.

The former process is the more delicate and difficult of the two, requiring clear JUDGMENT as well as sound knowledge of business details. The latter is merely mechanical and requires simply vigilant CARE.

The former process is called *Journalising*, and the latter *Posting*. Errors in Journalising are more difficult to trace, and more serious in their consequences, than errors in Posting.

To Journalise is to prepare entries for recording in the Ledger by noting in a book kept for that special purpose the

precise place in the Ledger where the entries have to be made, together with such other particulars as may be thought necessary. The book that is used for this preparatory work is (in its simplest form) called a JOURNAL.

If the Ledger is the King of Account Books, the Journal is the Prime Minister. He guides and controls the affairs of the little Kingdom of Book-keeping, and his responsibility is correspondingly great. There is a great difference of opinion and practice as to the best form of the Journal.

We will give examples of five forms, with all of which the student should make himself acquainted.

Folio	Date	FORM 1.—*ITALIAN FORM.*		
		Cash—*Dr.* To Sundries		
		,, H. Watts	£100	
		,, A. Saxon	165	£265
		Cash—*Cr.* By Sundries		
		,, H. A. Taunt... ...	35	
		,, T. Harris	105	140
		Goods—*Dr.* To Sundries		
		,, J. Weedon	40	
		,, ,, (Commission)	5	45
		,, H. Lamb	190	190
				235
		Goods—*Cr.* By Sundries		
		,, A. Wilton	20	
		,, G. Watson	125	
		,, W. Bruce	150	295
		Bad Debts—*Dr.* To Sundries ...		
		,, J. Carson ...	15	
		,, C. Jacks ...	10	25
		For balances due by them written off as Loss.		

Form No. 1 is the *old Italian method.* It has nothing to recommend it except its antiquity. It is still used however in some old-fashioned mercantile houses of business, and is therefore deserving of attention. There is no distinction between Dr. and Cr. *in the two columns.* The inner column is used merely to enter items which are collected into one amount in the outer column. Notice that the entries commence sometimes with a debit, and sometimes with a credit. The explanation at the foot of an entry is technically called the "*narration.*"

JOURNAL.

Folio	Date	FORM 2.—*MODERN FORM.*	*Dr.*	*Cr.*
		Cash—*Dr.* To Sundries	£265	
		,, H. Watts		£100
		,, A. Saxon		165
		Sundries—*Dr.* To Cash		140
		viz. H. A. Taunt	35	
		T. Harris	105	
		Goods—*Dr.* To Sundries	235	
		,, J. Weedon ... £40		
		,, ,, (Commission) 5		45
		,, H. Lamb		190
		Sundries—*Dr.* To Goods		295
		viz. A. Wilton	20	
		G. Watson	125	
		W. Bruce	150	
		Bad Debts—*Dr.* To Sundries ...	25	
		., J. Carson		15
		,, C. Jacks		10
		For balances of their Accounts written off.		
			£960	£960

The chief improvement *in Form No.* 2 is that the Debits and Credits are entered in separate columns. This is a very much clearer arrangement for the posting clerk, and less likely to lead to errors in the Ledger.

The casting of the Dr. and Cr. columns at the foot of each page affords a proof that the sum total of debits on that page is equal to the sum total of credits. Hence it follows that unless there are two equal and opposite errors, each separate entry is correct in this respect.

JOURNAL.

Folio.	Date.	FORM 3. *MODERN FORM SIMPLIFIED.*	*Dr.*	*Cr.*
		Cash, *Dr.*	£265	
		To H. Watts, *Cr.*		£100
		,, A. Saxon, *Cr.*		165
		H. A. Taunt, *Dr.*	35	
		T. Harris, *Dr.*	105	
		To Cash, *Cr.*		140
		Goods, *Dr.*	235	
		To J. Weedon £40		
		,, ,, (Commission) 5		45
		,, H. Lamb		190
		A. Wilton, *Dr.*	20	
		G. Watson, *Dr.*	125	
		W. Bruce, *Dr.*	150	
		To Goods, *Cr.*		295
		Bad Debts, *Dr.*	25	
		To J. Carson		15
		,, C. Jacks		10
		For balances due by them "written off"		
			£960	£960

Form No. 3 is stripped of the unnecessary repetitions of the word Sundries, and has the great advantage of *each entry beginning with the debits.*

This form will be found the most useful one to adopt for **Examination work** in ordinary cases.

FORM 4.

CIVIL SERVICE FORM.

	Folio.		Folio.	*Cr.*
		Jan. 1		
£265		Cash, *Dr.*		
		To H. Watts		£100
		,, A. Saxon		165
		Jan. 5		
35		H. A. Taunt, *Dr.*		
105		T. Harris, *Dr.*		
		To Cash		140
		Jan. 10		
235		Goods, *Dr.*		
		To J. Weedon £40		
		,, ,, (Commission) 5		45
		,, H. Lamb		190
		Jan. 15		
20		A. Wilton, *Dr.*		
125		G. Watson, *Dr.*		
150		W. Bruce, *Dr.*		
		To Goods		295
		Jan. 30		
25		Bad Debts, *Dr.*		
		To J. Carson		15
		,, C. Jacks		10
		For balances due by them written off as Loss.		
£960				£960

Form No. 4 may be called the Civil Service Form. It is in use in some Government offices, and Civil Service Students should make themselves acquainted with it.

It may be regarded as an improvement on the third form in having the Debit column removed from its dangerous proximity to the Credit column.

FORM 5.—*LEDGER FORM.*

Folio.	Account.	£	Date.	Folio.	Account.	£
	Cash	265	Jan. 1		Watts... ...	100
					Saxon... ...	165
	H. A. Taunt ...	35	Jan. 5		Cash	140
	T. Harris ...	105				
	Goods	235	Jan. 10		J. Weedon £40	
					,, (Comm.) 5	45
					H. Lamb ...	190
	A. Wilton ...	20	Jan. 15		Goods	295
	G. Watson ...	125				
	W. Bruce ...	150				
	Bad Debts ...	25	Jan. 30		J. Carson ...	15
					C. Jacks ...	10
	For balances due by them written off as a Loss.					
		960				960

Form No. 5 reduces the chance of errors in the posting to a minimum. Here it will be noticed that not only are the amounts that have to be debited kept apart from those that have to be credited, but also the names of the accounts themselves. He must be a very careless clerk indeed who could make an error in Posting from a Journal of this kind.

And now what have all these "forms" of Journalising to do with the Theory of Double Entry Bookkeeping?

It is *not* because forms are essential, but precisely for the opposite reason, that I have drawn your attention to them at this early stage. For it is nothing but a familiarity with a

variety of forms that will enable you to separate the essential from the accidental, and to recognize that the form is merely a matter of convenience, and in no sense a question of principle.

The real thing to consider is, how far do these or any other forms minister to the end in view, namely, the correct classification of the record of the transactions that have taken place, in the easiest and most convenient manner.

Classified Journal.

Compare the following examples of Journalising (both of which are done by Form No. 3).

		Example 1.		
Jan. 2		Brown, *Dr.*	£100	
		To Goods		£100
,, 5		Jones, *Dr.*	100	
		To Goods		100
,, 10		Robinson, *Dr.*	100	
		To Goods		100

		Example 2.		
Jan. 2		Brown, *Dr.*	£100	
,, 5		Jones, *Dr.*	100	
,, 10		Robinson, *Dr.*	100	
		To Goods		£300

Observe that in Example 1 each transaction is entered separately, but in Example 2 the three are grouped together and the three "credits" to "Goods" for £100 each are amalgamated and entered as one credit for £300.

This second example shows the principle of a **Classified Journal**, a principle of great utility and capable of the widest application.

Suppose, for example, there are in a month 1,000 transactions of Goods sold on credit. Then by the ordinary method our

Journal would contain 1000 debits (to the various persons who had bought the Goods) and 1000 Credits (to Goods account), and these Journal Entries would involve 2,000 postings into the Ledger.

But if the thousand credits to Goods are amalgamated (as in Example 2) and entered in one line, we have thereby saved 999 Journal entries and 999 Ledger postings.

It is convenient in practice to carry out this work of *preliminary classification* by assigning separate books for the entries of transactions in which the debits or the credits are all to the same Ledger account.

These books are in reality nothing more nor less than offshoots from a classified Journal. One very common arrangement is the following :—

(i.) *Cash Book.*

For all entries relating to Cash.

(ii.) *Day Book.*

For all Credit Sales.

(iii.) *Invoice Book.*

For all Credit Purchases.

(iv.) *Bills Receivable Book.*

For entries of Bills held.

(v.) *Bills Payable Book.*

For entries of Bills granted.

That the subdivision into separate "books" is merely a convenient form of Classified Journal will be clearly seen by the examples on the next two pages

EXAMPLE I.

CLASSIFIED JOURNAL.

		Cash, *Dr.*	£350	
Jan. 2	17	To Jones		£110
,, 10	51	,, Smith		115
,, 12	40	,, Green		125
,, 6		Jackson, *Dr.*	50	
,, 16		Johnson, *Dr.*	60	
,, 20		Trade Expenses, *Dr.*	70	
		To Cash		180
		Goods, *Dr.*	500	
Jan. 1		To Davids		150
,, 4		,, Williams		150
,, 15		,, Johns		200
,, 7		Black, *Dr.*	100	
,, 19		Brown, *Dr.*	200	
,, 30		White, *Dr.*	150	
		To Goods		450
		Bills Receivable, *Dr.*	450	
		To Black		100
		,, Brown		200
		,, White		150
		Davids, *Dr.*	150	
		Williams, *Dr.*	150	
		Johns, *Dr.*	200	
		To Bills Payable		450

We will now enter the same transactions in Separate Books, the entries in which are posted direct to the Ledger. If the totals are also posted from these books, the Ledger has then received the complete double record of each transaction, which is the essence of double entry bookkeeping.

It is not *necessary* that these totals should be passed through the Journal, though this is frequently done. The principles of Double Entry are in no way violated by the omission of such Journal entries, provided that the totals are not omitted in the Ledger.

Example II.

CASH BOOK

Dr. Cash.					Contra. Cr.				
date	fol.		£		date	fol.		£	
Jan 2	17	Jones	110		Jan 6	31	Jackson	50	
10	51	Smith	115		16	35	Johnson	60	
12	40	Green	125		20	41	T. E.	70	
		Cash Dr.	350				Cash Cr.	180	

INVOICE BOOK

January 1894			
1	Davids	150	
4	Williams	150	
15	Johns	200	
	Goods Dr.	500	

DAY BOOK

January 1894			
7	Black	100	
19	Brown	200	
30	White	150	
	Goods Cr.		450

BILLS RECEIVABLE BOOK

January 1894			£	s.	d.
date	fol.				
7		Black	100	0	0
19		Brown	200	0	0
30		White	150	0	0
		B.R. Dr.	450	0	0

BILLS PAYABLE BOOK

January 1894			£	s.	d.
date	fol.				
1		Davids	150	0	0
4		Williams	150	0	0
15		Johns	200	0	0
		B.P. Cr.	500	0	0

LEDGER.

Dr.						Cr.					
date	folio		£	s	d	date	folio		£	s	d

C 2

The "Totals" of these books may be "journalised" if desired as follows :—

		Cash, Dr. ... ... To Sundry Receipts ... The Individual *Credits* having been posted direct from the Cash Book.	£350	£350
		Sundries, Dr. ... ... To Cash ... ... The Individual *Debits* having been posted direct from the Cash Book.	180	180
		Goods, Dr. ... ... To Sundries ... ... For credit purchases during the month.	500	500
		Sundries, Dr. ... ... To Goods ... ... For credit sales during the month.	450	450
		B. R. Dr. ... ... To Sundries ... ... For sundry acceptances received by me during the month.	450	450
		Sundries, Dr. ... ... To B. P. ... ... For sundry bills accepted by me during the month.	500	500

If the totals are posted direct from the separate books, these may be considered as parts of a many-volumed Journal. If they are passed through the Journal, then the other books are subsidiary or auxiliary to the Journal.

I hope the student of Bookkeeping will very clearly perceive that the labour-saving method, the outlines of which have just been explained, *is not* Bookkeeping by *Single Entry*, but rather an advanced form of Double Entry.

What then is Single Entry Bookkeeping?

Whenever any transactions are recorded so as to show only one of the two aspects of the exchange, that is, whenever debits are entered in the Ledger *without their corresponding credits* or

credits without their corresponding debits, we have Single Entry Bookkeeping.

It might be supposed that as "Single Entry" is so incomplete and imperfect a method, no intelligent business man would fail to keep his books by Double Entry.

This is however very far from being the case. There are still large numbers of very capable men in a considerable way of business who (for want of knowing better) keep their books by "Single Entry," and have never in their lives had the satisfaction of **Proving** and saying, "There! I am right to a penny!"

Such a person would at all events keep a Day Book and Cash Book, and possibly (but not probably) an Invoice Book too. From these he would "post" into his Ledger all entries relating to *personal* accounts, omitting to post the totals of Day Book and Invoice Book to Goods account, and omitting to post any entries of business expenses to Profit and Loss. It is quite clear that a Ledger kept on this principle would be an incomplete record, and would never "prove."

It has already been said that there are considerable differences in opinion and in practice as to the *best form* of the Journal. A still greater difference of opinion exists amongst business men and accountants as to the *Use* of the Journal.

There are some who say that no entry should under any circumstances find its way into the Ledger except through the medium of the Journal. Others confine its use to the entry of those transactions that do not find a place in any of the other books, thus making it, as it were, the odd man of the establishment, to whose lot it falls to perform all the out-of-the-way duties which the regular servants decline to undertake as "not being their work."

The best modern opinion will probably be found to lie midway between these two extremes.

It is no doubt a very wholesome rule that the original entry of every transaction should always be made either in the Journal or some other book of chronological record, but whether every Ledger entry, including all balances and transfers, should of necessity pass through the Journal is a question that must be left to the taste and fancy of the Bookkeeper.

There is however one special use of the Journal which we must not omit to notice. The Journal is found very serviceable for the opening entries that have to be made in the Ledger, *at the commencement of the business.*

It has already been explained that these consist of the Assets and Liabilities of the firm, together with the amount of the capital due to each of the proprietors. Hence the opening entries would be Journalised somewhat in the following manner.

JOURNAL—(Form No. 3).

Folio.	Date.	Entry.	*Dr.*	*Cr.*
	Jan. 1	Sampson, *Dr.*	£500	
		Goods, *Dr.*	1,500	
		Cash, *Dr.*	1,500	
		Bank, *Dr.*	1,500	
		Bills Receivable, *Dr.*	1,500	
		To Bertram, *Cr.*		£100
		To Bills Payable, *Cr.* ...		1,400
		To Capital (Jones), *Cr.* ...		2,500
		To Capital (Smith), *Cr.* ...		2,500

We shall now find it useful to gather up into focus the main points of the present chapter.

Summary of Lesson VI.

(i.) The act of deciding in which two (or more) accounts each transaction has to be entered is called *Journalising.*

(ii.) The book in which this decision is noted down is called in its simplest form the *Journal.*

(iii.) There are many different *forms* used for the Journal, among which may be noticed :—

(*a*) The Italian form.

(*b*) The modern form.

(*c*) Modern form simplified.

(*d*) Civil Service form.

(*e*) Ledger Form.

(iv.) A "Classified Journal" is one in which the entries have been sorted out beforehand, so that several debits or credits to the same account may be amalgamated and entered in one line.

(v.) Day Book, Invoice Book, and Cash Book are in reality parts of a many-volumed classified Journal.

(vi.) If the totals of these books are not posted into the Ledger, the books are said to be kept by "Single Entry."

(vii.) If the totals are entered in the Ledger (whether they are passed through the Journal or not), the books are kept by Double Entry.

(viii.) The principle underlying this method of classification is one of the highest utility.

(ix.) Opinions differ as to the use of the Journal ; the following being the extreme views :—

(*a*) That no entry of any kind should be made in the Ledger that has not "passed through" the Journal.

(*b*) That the only use of the Journal is to contain a record of transactions that do not find a proper place in any of the other books of original entry.

(x.) It is a very wholesome rule that "original entries should not be made in the Ledger."

(xi.) The Journal should be used for "opening entries."

Questions and Exercises on Lesson VI.

1. What are the two chief divisions of the work of classifying transactions?

2. Which of these two processes is the more difficult, and what qualifications are needed for the proper carrying out of the two processes respectively?

3. Journalise the following transactions by each of the five forms given :—

(1) Began business with Cash			£2,000
(2) Bought Goods of J. Wyman ...	£150		
,, ,, W. Young ...	650		
			800
(3) Placed in Bank			950
(4) Bought Goods for Cash			500
(5) Sold Goods to T. Trott	250		
,, ,, J. Brace	360		
			610
(6) Paid Cash to J. Wyman	150		
,, ,, for Trade Expenses ...	50		
			200

4. Write out the transactions of which the Journals given as examples in this chapter are a record.

5. Why is it desirable to be acquainted with more than one form of Journal?

6. What is a "classified" Journal?

7. Explain exactly how this preliminary classification saves Labour.

8. What separate books are often used to assist this preliminary classification, and why may these be called offshoots from the Journal?

9. Make a rough diagram showing the method of *Double Entry* by these books without the medium of a Journal.

10. Give examples of Journal Entries for the totals of Day Book, Invoice Book, &c.

11. How are "opening entries" Journalised?

12. Make out a balance sheet from the Journal Entries on page 86.

LESSON VII

THE PRINCIPLE OF THE TRANSFER FROM THE PREPARATORY TO THE FINAL RECORD

THE Ledger with its accounts may be regarded as a sort of General Post Office, with a vast array of properly labelled pigeon-holes each divided into two compartments. Here is a miscellaneous heap of transactions spread before us ready to be pigeon-holed. Now the Journal tells us exactly what to do with each entry, so that we have only to take great CARE, and each transaction will presently find itself in its own appropriate pigeon-hole.

It is manifest, then, that the work of posting is merely a mechanical one, and no doubt many a posting clerk is sighing for some one, in this age of invention and discovery, to devise an ingenious posting machine, warranted to do all the work with copperplate neatness and never-failing accuracy.

Let the young Bookkeeper, however, by no means despise the duty, or imagine that there is no room even here for the exercise of intelligent observation and reflection.

Suppose, for example, that he has posted on Jan. 10 the Journal Entry—

W. Smith Dr.	72 3 6	
To Goods		72 3 6

and that in the course of a few days, say on Jan. 17, he comes across the Journal Entry—

Cash Dr.	72 3 6	
To J. Smith Cr. . . .		72 3 6

Now in the Ledger on which he is engaged there are accounts both for J. Smith and W. Smith. The "*merely mechanical*" poster posts away steadily, and does not notice anything unusual. The vigilant bookkeeper sees that this credit to J. Smith fits in with nothing in J. Smith's account that makes it appear a reasonable or likely transaction, and his mind (being on the alert) travels back to that debit of W. Smith's of a few days back. He turns it up, sees that it is exactly the same amount, makes inquiry, and has the satisfaction of finding that his vigilance is rewarded by the timely discovery of an awkward error. No, I think we shall not want the "*posting machine*," after all.

There are six things to be thought about in posting every entry: Title of the account, Dr. or Cr., Date, Folio, Particulars, and Amount.

EXAMPLE (Dr. Side only).

Dr. JOHN SMITH.

Date.		Particulars.	Folio.	Amount.		
1894 January	12	To Goods	17	82	6	4

TITLE OF ACCOUNT.

(1) The first thing we must make quite sure of is that we have got the Ledger open at the right place, that is, we must look carefully at the heading. When there are two or more

accounts of the same name but different initials, or nearly the same name (*e.g.* Brown and Browne), or exactly the same name but living at a different place (*e.g.* John Smith of Oxford and John Smith of Cambridge), special care is needed to prevent mistakes. It is a good plan to make a list of such **dangerous similarities,** and hang it in a conspicuous place while posting.

DR. OR CR. ?

(2) The next thing we have to do is to notice whether the entry before us has to be debited or credited. When posting miscellaneous debits and credits we are apt to make mistakes of this kind—more especially when, after posting a long series of debits, we first begin to post credits, or *vice versâ*. This danger is avoided in some houses by giving all debit postings to one set of clerks and all credit postings to another set. (A very good mechanical safeguard.) Intelligent reflection on the nature of the transaction will be found the best way of avoiding this mistake.

DATE.

(3) So far it seems we have not put pen to paper at all. Now look above at the entry on the line immediately preceding the one you are going to work on, and see if it was the same *year* and *month*. If not, insert these as well as the day of the month.

FOLIO.

(4) The Journal is usually "paged" or "folioed" just as an ordinary book. The Ledger is sometimes folioed as under.

LEDGER.

19								19

But if there is a double ruling across each page then it is folioed (like the Journal) as under.

19 *Dr.*	J. SMITH.	*Cr.*	*Dr.*	W. SMITH.	*Cr.* 20

Now there are several things to be attended to about the folio.

(*a*) The Journal folio must be entered in the Ledger in the column appointed for it. If that column is placed next to the pounds column CARE must be exercised that the figures in no case interfere with the casting of the amounts.

(*b*) The Ledger folio must be entered in the Journal. This serves not only as a reference to show where the Journal entry has been transferred to, but it is also an indication that the entry has been actually posted. It should not therefore be done until the Ledger posting has been completed, but it should be done without fail the very moment the posting is made.

(*c*) As soon as an account is "opened" in the Ledger, the "folio" must be entered in the **Index**. At present we have said nothing about the index, which is so important an adjunct to the Ledger that we may as well make its acquaintance at once.

An index is a list of all the accounts in a Ledger in alphabetical order. It is frequently arranged so that all names beginning with "A" are on one page, all names beginning with "B" on another, and so on. In some cases it is necessary to subdivide further, according to the second letter or, better still, *the first vowel* of the name. In the Index the names (and sometimes the addresses) and the *folio* of the Ledger where the account is opened are clearly entered, thus—

	Folio.
Keep, Alfred, 357, City Road, E.C.	151
Kendall & Rice, 14, Priory Road, Brighton ...	420, 517

When a new account is opened in the Ledger, the name and folio must instantly be entered in the Index, and when an old account is transferred to another part of the Ledger, the new *folio* must be instantly entered in the Index.

PARTICULARS.

(5) We have now to consider the particulars entered. The usual plan is to enter simply the name of the other account concerned in the transaction in question. For example, suppose we are posting the Journal entry "*Jones Dr. To Cash £100*";—in Jones's account we should enter the words "*To Cash*," but in Cash account we should enter the words "*By Jones.*"

But if the Journal entry were as follows :—

Jones Dr.	100	
To Cash		95
To Discount		5

we might make the entry in Jones's account in two ways, either thus—

	fo.	
Jan. 7 To Cash	17	95 0 0
Jan. 7 To Discount	17	5 0 0

or thus—

Jan. 7 To Sundries	17	100 0 0

where the word "sundries" simply means the collection of several items in one line.

Not much is gained by the latter method—an infinitesimal amount of ink, paper, and time. Say

	Pence.
Ink ... ... £— —	·001*d.*
Paper ... ... £— —	·01
Clerk's time ¼ of a minute at 1/- per hour	·004
Gross gain to the firm	·015*d.*

On the other hand, the probable loss of time caused to the principal in hunting up the original entry whilst Mr. Jones stands fretting and fuming may fairly be put down at 6*d.*, showing a net loss to the firm of 5·985*d.*

But the word "*Sundries*" has a sort of magic charm for the average clerk. I am afraid I cannot reason him out of it.

The question of how much detail to enter in the Ledger is one for the judgment of the proprietor or manager of the business. In some retail houses it is found advisable to enter in the Ledger *full details* of the Goods sold to the firm's customers, and this practice is found to be a great convenience when accounts have to be made out fully and rendered to the customers, as it saves the trouble of perpetual reference to the original book of entry. In such cases as these it is well to have the Ledger ruled with double money columns both on the Dr. and Cr. sides ; the inner column for details, and the outer column for totals.

AMOUNT.

(6) The last part of the poster's duty is to see that the amount is correctly entered. Here he must be doubly careful. CARE is needed to see that he gets hold of the right figures, and CARE is needed to see that he enters those figures properly.

(*a*) Mistakes are apt to occur through the careless repetition of figures, *e.g.* Thirty-four, three, seven for £34 3*s.* 7*d.* is clear enough, but what does "Thirty three seven" stand for? £30 3*s.* 7*d.* or £33 7*s.* 0*d.*? It might stand for either. Therefore, in calling over or repeating to one's-self such amounts as these, care should be taken to say "Thirty *pounds*, three and sevenpence," or "Thirty-three pounds, seven shillings." Special care is also necessary when the amount consists of the repetition of the same figures (*e.g.* 17 1 7, which might at a hasty glance be mistaken for 17 17 0).

(*b*) The figures must be neat and clear, with no fantastic flourishes. Units, tens, and hundreds must be set precisely under each other, and must have no tendency to run into one another.

TRIAL PROOF.

Now let us suppose that we have finished posting the Journal entries for one month. On a very moderate estimate we will put the transactions at 100 a day, involving 2,500 Journal entries and about 6,000 separate postings. How are

we to test the accuracy of this work? It is quite possible to test it so exactly, that even if there were 60,000 postings instead of 6,000, and if only one mistake of 1*d.* had been made in the whole 60,000, we should certainly discover the existence of that mistake by the application of the method used.

This method is called taking out a TRIAL BALANCE, and it is based on the following reasoning:—

IF
- (*a*) The Journal or Books of Original Entry contain an equal amount of debits and credits.
- (*b*) These original Entries have been accurately posted.
- (*c*) No "original" entries have been made in the Ledger.

IT FOLLOWS THAT
- (i.) The total of the Original "debits" will equal the total of the Ledger debits.
- (ii.) The total of the Original "credits" will equal the total of the Ledger credits.
- (iii.) The total of the debits will equal the total of the credits.

By way of example let us take the transactions given at the end of Lesson V. and Journalise them, after which we will post into a Ledger and then test the accuracy of our posting by a Trial Balance.

JOURNAL.

1894			Folio.	*Dr.*	*Cr.*
				£	£
April	1	Cash, *Dr.*	97	200	
		Goods, *Dr.*	98	4,500	
		Bank, *Dr.*	98	2,000	
		H. Turner, *Dr.*	99	300	
		To A. Milne	98		250
		,, G. Scott, Capital ...	100		3,250
		,, W. Jemmett, Capital	100		3,500
,,	3	H. Faber, *Dr.*	99	1,000	
	4	Cash, *Dr.*	97	400	
		To Goods	98		1,400
		Forward ...		8,400	8,400

JOURNAL.

1894			Folio.	*Dr.*	*Cr.*
				£	£
		Forward ...		8,400	8,400
April	6	C. Bacon, *Dr.*	99	50	
		To P. & L.	100		50
		For Commission *re* X, Y, Z			
,,	7	Goods, *Dr.*	98	150	
		To A. Milne	98		150
,,	10	H. Turner, *Dr.*	99	100	
		To Goods	98		100
,,	12	Trade Expenses, *Dr.* ...	98	20	
		To Cash	97		20
		For Wages as per Wages Book			
,,	14	Cash, Dr.	97	600	
		To H. Faber	99		600
,,	15	Bank, *Dr.*	98	1,000	
		To Cash	97		1,000
,,	18	Trade Expenses, *Dr.* ...	98	40	
		To Cash	97		40
		For Repairs to Premises ...			
,,	19	W. Jemmett Capital, *Dr.*...	100	50	
		To Cash	97		50
,,	22	R. Rutland, *Dr.*	99	700	
		To Goods	98		700
		Forward ...		11,110	11,110

JOURNAL.

1894			Folio.	*Dr.*	*Cr.*
				£	£
		Forward ...		11,110	11,110
April	23	Goods, *Dr.*	98	650	
		To D. Ralph	100		650
,,	25	Trade Expenses, *Dr.* ...	98	30	
		To Cash	97		30
		For Sundry small expenses as entered in Petty Cash Book.			
,,	30	Cash, *Dr.*	97	144	
		To Goods	98		144
		For Sundry Cash sales as entered in Petty Sales Book.			
		Total		11,934	11,934

We will now "post" the above Journal Entries into the Ledger.

LEDGER.

Dr. CASH ACCOUNT. *Cr.*

1894			fo.	£	*s.*	*d.*	1894			fo.	£	*s*	*d.*
April	1	To Balance .	95	200	0	0	April	12	By T. E. ...	96	20	0	0
,,	4	,, Goods ...	95	400	0	0	,,	15	,, Bank ...	96	1000	0	0
,,	14	,, Faber ...	96	600	0	0	,,	18	,, T. E. ...	96	40	0	0
,,	30	,, Goods ...	97	144	0	0	,,	19	,, Jemmett .	96	50	0	0
							,,	25	,, T. E. ...	97	30	0	0

LEDGER (*Continued*).

Dr. GOODS ACCOUNT. *Cr.*

1894			fo.	£	s.	d.	1894			fo.	£	s.	d.
April	1	To Balance .	95	4,500	0	0	April	4	By Sundries.	95	1400	0	0
,,	7	,, Milne ...	96	150	0	0	,,	10	,, Turner .	96	100	0	0
,,	23	,, Ralph ...	97	650	0	0	,,	22	,, Rutland .	96	700	0	0
							,,	30	,, Cash ...	97	144	0	0

Dr. TRADE EXPENSES. *Cr.*

1894			fo.	£	s.	d.
April	12	To Wages...	96	20	0	0
,,	18	,, Rent ...	96	40	0	0
,,	25	,, Sundries.	97	30	0	0

Dr. LONDON AND COUNTY BANK. Lombard Street. *Cr.*

1894			fo.	£	s.	d.
April	1	To Balance .	95	2,000	0	0
,,	15	,, Cash ...	96	1,000	0	0

Dr. ALEXANDER MILNE. 15, Lothbury, E.C. *Cr.*

1894			fo.	£	s.	d.
April	1	By Balance .	95	250	0	0
,,	7	,, Goods ...	96	150	0	0

LEDGER (*Continued*).

Dr. H. E. TURNER. 20½, St. Mary Axe. *Cr.*

1894			fo.	£	s.	d.						
April	1	To Balance .	95	300	0	0						
,,	10	,, Goods ...	96	100	0	0						

Dr H. FABER. 127, Fleet Street, E.C. *Cr.*

1894			fo.	£	s.	d.	1894			fo.	£	s.	d.
April	3	To Goods ...	95	1000	0	0	April	14	By Cash ...	96	600	0	0

Dr. C. BACON. 101, Cheapside, E.C. *Cr.*

1894			fo.	£	s.	d.						
April	6	To P. and L.	96	50	0	0						

Dr. R. RUTLAND. 7, Belle Vue, Hastings. *Cr.*

1894			fo.	£	s.	d.						
April	22	To Goods ...	96	700	0	0						

LEDGER (*Continued*).

Dr. D. RALPH. Kurnella, Bournemouth. *Cr.*

					1894			fo.	£	s. d.
					April	23	By Goods ...	97	650	0 0

Dr. PROFIT AND LOSS. *Cr.*

					1894			fo.	£	s. d.
					April	6	By Bacon...	96	50	0 0

Dr. W. JEMMETT, CAPITAL. *Cr.*

1894			fo.	£	s. d.	1894			fo.	£	s. d.
April	19	To Cash.....	96	50	0 0	April	1	By Balance..	95	3,500	0 0

Dr. G. SCOTT, CAPITAL. *Cr.*

					1894			fo.	£	s. d.
					April	1	By Balance..	95	3,250	0 0

The posting having been concluded, we proceed to test the accuracy of this part of our work by a **Trial Balance.** It will be seen that this Trial Balance is simply a list of the Ledger accounts together with the sum total that has been posted to their credit or debit since the last balancing (including the balances at the beginning of the period).

TRIAL BALANCE.

April 30, 1894.

Dr.			Name of Account.	Ledger Folio.	*Cr.*		
£	*s.*	*d.*			£	*s.*	*d.*
1,344	0	0	Cash		1,140	0	0
5,300	0	0	Goods		2,344	0	0
90	0	0	Trade Expenses				
3,000	0	0	London and County Bank ...				
			A. Milne		400	0	0
400	0	0	H. E. Turner...				
1,000	0	0	H. Faber		600	0	0
50	0	0	C. Bacon				
700	0	0	R. Rutland				
			D. Ralph		650	0	0
			Profit and Loss		50	0	0
50	0	0	W. Jemmett, Capital ...		3,500	0	0
			G. Scott, Capital		3,250	0	0
11,934	0	0	These totals will be seen not only to agree with one another but also to agree with the Journal Totals.		11,934	0	0

A trial balance is sometimes made by taking out balances only (not totals). This method saves considerable trouble and is sufficient for examination purposes (and sometimes in practical work) if care is exercised.

MODERN METHOD.

If the same transactions had been entered by Day Book, Invoice Book, and Cash Book, using the Journal for miscellaneous entries, the result would have been just as easily tested *and the labour of entering and posting considerably lightened.*

EXAMPLE.

DAY BOOK.

Folio.	Date.	Name.	Amount.
	1894		£
99	Apr. 3	H. Faber ...	1,000
99	,, 10	H. Turner ...	100
99	,, 22	R. Rutland ..	700
103	,, 30	Goods, *Cr.* ...	1,800

INVOICE BOOK.

Folio.	Date.	Name.	Amount.
	1894		£
98	Apr. 7	A. Milne ...	150
100	,, 23	D. Ralph ...	650
103	,, 30	Goods, *Dr.*...	800

CASH BOOK INWARDS.

	1894		£
103	Apr. 4	Goods ...	400
99	,, 14	Faber ...	600
103	,, 30	Goods ...	144
103	,, 30	Cash, *Dr.* ...	1,144

CASH BOOK OUTWARDS.

	1894		£
98	Apr. 12	Trade Exps...	20
98	,, 15	Bank	1,000
98	,, 18	Trade Exps...	40
100	,, 19	W. Jemmett .	50
98	,, 25	Trade Exps...	30
103	,, 30	Cash *Cr.*.....	1,140

1894. JOURNAL.

			fo.	*Dr.* £	*Cr.* £
April	1	Cash, *Dr.*	103	200	
		Goods, *Dr.*	103	4,500	
		Bank, *Dr.*	98	2,000	
		H. Turner, *Dr.*	99	300	
		To A. Milne	98		250
		,, W. Jemmett, Capital	100		3,500
		,, G. Scott, Capital ...	100		3,250
April	6	C. Bacon, *Dr.*	99	50	
		To P. and L.	100		50
		Commission *re* X.Y.Z. ...			
				7,050	7,050

The only Ledger accounts that are affected by this change of method are Cash and Goods, which appear as under :—

Dr. CASH. *Cr.*

1894		fo.	£	1894		fo.	£
Apr. 1	To Balance .	102	200	Apr. 30	By Sundries	102	1,140
,, 30	,, Sundries	102	1,144				

Dr. GOODS. *Cr.*

1894		fo.	£	1894		fo.	£
Apr. 1	To Balance .	102	4,500	Apr. 4	By Cash ...	102	400
,, 30	,, Sundries	102	800	,, 30	,, Sundries	102	144
				,, 30	,, Sundries	102	1,800

And the Trial Balance comes out exactly as before, the correctness of the same being shown as under :—

	£
Journal	7,050
Day Book	1,800
Cash Book In	1,144
Invoice Book	800
Cash Book Out	1,140
	£11,934

It will be well before closing this Lesson to set forth clearly what classes of errors *are*, and what classes are *not* revealed by a Trial Balance.

ERRORS REVEALED BY TRIAL BALANCE.

1. Posting the right amount to the wrong side of an account.

2. Posting the wrong amount.

3. Omitting to post an entry altogether.

4. Posting an entry twice.

In fact *all* errors except "Compensating errors." These are not brought to light either by Trial Balance or by final PROOF.

ERRORS NOT REVEALED BY TRIAL BALANCE

As examples of Compensating errors, notice :—

1. Errors in the original entry, unless they involve a difference between debits and credits, and then they should have been previously detected by casting the two sides of the Journal.

2. Posting the right amount to the right side of the wrong account.

3. Over-debiting one account and under-debiting another.

4. Over-crediting one account and under-crediting another.

[For a fuller treatment of this subject see Lesson XIX.]

Summary of Lesson VII.

1. The Mechanical art of recording the transaction in the Ledger from the instructions given in the Journal is called *Posting*.

2. Though posting is a mechanical process it must not be done in a mechanical way.

3. There are six things to be considered in every entry made :—

(i.) The account in which it should be entered. (ii.) The proper side of that account. (iii.) The date. (iv.) The folio. (v.) The words. (vi.) The amount.

4. Folioing is necessary as an indication how far in his work the poster has proceeded, and must be done in both books immediately after each entry.

5. An Index is an alphabetical list of all the accounts in the Ledger with the folios on which those accounts are entered.

6. How much detail to put in the Ledger is a matter for the head of the business to decide for himself.

7. Special care is requisite in entering the amounts, lest mistakes should arise through similarity in sound or the juxtaposition of similar figures.

8. The accuracy of the posting is tested by means of a trial balance.

9. A Trial Balance is a list of Ledger accounts, together with the sum total of debits and the sum total of credits that have been posted to each since the last balancing.

10. This test is equally efficacious whether the original entries have been passed through the Journal or not.

11. Some errors are not brought to light by the Trial Balance.

Questions and Exercises on Lesson VII.

1. What is meant by "Posting"?

2. In what way is there room for the exercise of the faculty of intelligent observation when posting?

3. What two points demand the vigilance of the poster before beginning to make the entry?

4. What is an "Index," and wherein does its utility consist?

5. What is meant by "folio" and "folioing"? What are the advantages of "folioing." What cautions have to be observed in folioing?

6. Why are the details of transactions not usually posted into a Ledger, and under what circumstances might it be desirable to deviate from the usual custom in this respect?

7. What classes of errors are likely to occur in posting the *amounts*, unless great care is exercised?

8. What is a Trial Balance?

9. How do we know that errors in posting will be revealed by the Trial Balance?

10. What classes of errors are not brought to light by means of a Trial Balance? Give three examples.

11. Enter the following transactions in a Journal. Then post into a Ledger and test the accuracy of your work by a Trial Balance.

1894		£	s.	d.
July 1	Cash in Hand	13	1	4
,, ,,	Debts Receivable—Beaumont	38	0	0
,, ,,	,, ,, Rose	15	10	0
,, ,,	,, ,, Gee	7	2	0
,, ,,	Debts Payable—Wheeler	21	10	0
,, ,,	,, ,, Shrimpton	42	0	0
,, ,,	,, ,, Laycock	16	2	2
,, ,,	Value of Stock	1,914	0	0
,, ,,	Cash in Bank	119	0	0
,, 2	Paid for Gas	4	0	9
,, 4	Sold Goods to W. Blackall	52	7	6
,, 6	Paid for Stamps	1	0	0
,, 7	Bought Goods of R. Laycock	29	17	6
,, 10	Sold Goods to J. Rose	11	5	0
,, 13	Paid Clerk's Wages	8	6	8
,, 15	Sundry Cash Sales, July 1—15	72	12	5
,, 16	Drew Cheque for Shrimpton	42	0	0
,, 17	Bought Goods of Murray	17	3	4
,, 21	Paid for Business Journeys	7	1	3
,, 22	Received of J. Rose	20	0	0
,, 25	Drew Cheque for Wheeler	21	10	0
,, 30	Drew Cheque for Private Expenses	18	0	0
,, 31	Sundry Cash Sales	61	11	7
,, ,,	Paid into Bank	120	0	0
,, ,,	Value of Stock	1,812	0	0

12. Enter the following transactions in Cash Book, Day Book, Invoice Book (no Journal is necessary if the entry on February 1 is entered in Cash Book Inwards). Then Post these books to the Ledger and test the accuracy of your work by a Trial Balance.

1894		£	s.	d.
Feb. 1	I began business with	1,000	0	0
,, 2	Bought Goods of J. T. Macdonald	78	10	0
,, 3	,, ,, ,, J. C. Thomson	580	0	0
,, 5	,, ,, for Cash	86	3	7
,, 6	Placed at Bank	750	0	0
,, 7	Sold Goods to S. Bailey	91	10	0
,, 9	,, ,, ,, A. Lereche	18	7	6
,, 10	Gave Thomson cheque for	580	0	0
,, 11	Received of S. Bailey	91	10	0
,, 12	Sold Goods to H. Serpell	122	1	6
,, 15	,, ,, for Cash	88	2	4

1894		£	s.	d.
Feb. 16	Bought Goods of G. R. Sexton	162	15	0
,, 18	Sold Goods to E. Watt	45	0	0
,, 20	,, ,, ,, M. Groser	31	10	0
,, 22	Received of H. Serpell	100	0	0
,, 23	,, ,, M. Groser	31	10	0
,, 24	Paid into Bank	200	0	0
,, 25	Received of H. Serpell	22	1	6
,, 26	Bought Goods of J. T. Macdonald	12	0	0
,, 27	Trade Expenses (debit P. & L.)	25	0	0
,, 28	Private Expenses (debit Capital)	20	0	0
,, ,,	Value of Goods unsold	587	0	0

13. Make out the Trial Balance given on page 101 with balances only (instead of totals).

[NOTE.—The above exercises are not intended for advanced students.]

LESSON VIII

THE PRINCIPLE OF BALANCING AND CLOSING THE LEDGER.

In the fifth Lesson we endeavoured to give a general idea of the principle of "Proving." We will now show the principles that underlie the whole *process* of balancing and closing by which this "Proving" is most conveniently effected.

Notice first that accounts may be balanced *and* "closed," or they may be balanced without being closed.

ACCOUNT BALANCED AND CLOSED.

Dr. WEBBER AND SMART. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
Jan. 1	To Balance ...	62	4	3	Jan. 25	By Returns	5	10	0
,, 19	,, Goods	15	15	0	Feb. 1	,, B.R. (No. 181) ...	100	0	0
Feb. 4	,, ,, ...	81	10	0	Mar. 5	,, Cash	60	0	0
,, 10	,, ,, ...	22	4	6	,, 31	,, Balance	69	9	4
Mar. 21	,, ,, ...	53	5	7					
		234	19	4			234	19	4

ACCOUNT BALANCED BUT NOT CLOSED.

Dr. JACKSON AND TROTT. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
Jan. 1	To Balance ...	100	0	0	Jan. 31	By Balance	172	6	4
,, 7	,, Goods	72	6	4					
		172	6	4			172	6	4
Feb. 1	To Balance ...	172	6	4					

In Theory all accounts are closed as well as balanced whenever the books are made up and **proved.** In Practice they are seldom actually closed, except when the account is "settled." For the process of balancing usually occupies several days at the least, and it would in most houses of business be highly inconvenient and dangerous to allow accounts to appear in the Ledger as if "settled," when in reality they were not settled.

We shall however proceed for the present upon the theoretical assumption that every account is closed at balancing time, and we will show how this is done, and to what result this general closing of accounts leads.

SUBSIDIARY ACCOUNTS.

An account is said to be subsidiary to another, when it is kept for the purpose of recording details, which it is desired for some reason to collect and represent apart from the other items of the main account.

Every account and every kind of account may have subsidiary accounts. Even subsidiary accounts themselves may have accounts which are subsidiary to them.

(1) Real accounts may have subsidiary accounts. Thus Cash account may have a subsidiary account called "Petty Cash" for the entry of minor receipts or minor expenses with which it may be thought well not to encumber the main account.

EXAMPLE: MAIN ACCOUNT.

Dr. CASH ACCOUNT. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
July 1	To Balance	100	0	0	July 1	By Petty Cash	10	0	0
,, 6	,, Parnell	67	10	0	,, 3	,, Wilson	25	0	0
,, 10	,, Love	33	15	0	,, 8	,, Grace...	7	17	6
,, 31	,, Petty Cash.	3	7	6	,, 15	,, Ward	13	13	0

SUBSIDIARY ACCOUNT.

Dr. PETTY CASH. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
July 1	To Cash	10	0	0	July 1	By Smart	1	0	0
					,, 5	,, Stewart	2	0	0
					,, 10	,, Travelling.....	2	5	0
					,, 20	,, Howitt	1	7	6
					,, 31	,, Cash	3	7	6
		10	0	0			10	0	0

Here, on July 1, £10 was advanced to "Petty Cash" for small expenses, and the balance remaining in "Petty Cash," viz. £3 7*s.* 6*d.*, was returned to the general Cash account on the 31st.

(2) Personal accounts may likewise have subsidiary accounts. Suppose for example that I have a business which involves the employment of a number of Commission agents, some of whom do business for me in various towns. I might desire to keep (for each of these agents) both a general account, to show a brief abstract of the state of affairs between us, and also a commission account, showing the details of the business done by them on my behalf. These Commission accounts would be subsidiary to the agents' general accounts, and some of these subsidiary commission accounts might themselves have accounts giving petty details which it was thought desirable to keep apart.

EXAMPLE.

Dr. JOHN JONES.—GENERAL ACCOUNT. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
July 15	To Cash	25	0	0	July 31	By Balance	17	10	0
					,,	,, Commission.....	32	4	9

Dr. J. JONES.—COMMISSION ACCOUNT. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
July 31	To Charges a/c.	7	5	6	July 1	By Smith	10	0	0
,, ,,	,, Balance to General a/c.	32	4	9	,, 3	,, Brown	7	7	6
					,, 10	,, Jones	5	5	0
					,, 12	,, Robinson	1	1	0
					,, 21	,, Birmingham	6	16	0
					,, 28	,, Warrington	9	0	9
		39	10	3			39	10	3

Dr. J. JONES.—COMMISSION ACCOUNT—CHARGES. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
July 7	To Travelling	2	1	6	July 31	By Balance to Commission a/c	7	5	6
,, 14	,, ,,	1	1	0					
,, ,,	,, Repairs	0	13	0					
,, 21	,, Travelling	1	10	0					
,, 28	,, Porterage	0	5	0					
,, ,,	,, Travelling	1	15	0					
		7	5	6			7	5	6

Thus we see that property accounts (both Real and Personal) may have subsidiary accounts. The term is however more frequently employed with reference to accounts that show distinct classes of Gains or Losses, and are hence subsidiary to P. and L.

Several of these are sufficiently important to deserve fuller attention than we have hitherto been able to give them.

(1) TRADE EXPENSES.

All ordinary outgoings of Property (Cash, Goods, or Debts) on behalf of the business in which we are engaged for which we do not receive assets of equal value in exchange are called **Trade Expenses.** Exchanges of Cash, Goods, or Debts for **Services** or Labour are therefore *Trade Expenses.* For example :—

(*a*) An exchange of Cash for Services (as when a merchant pays £10 in wages to his clerks)

(*b*) An exchange of Goods for Services (as when a brewer gives his labourers a cask of ale).

(*c*) An exchange of Debts for Services (as when a tradesman incurs a debt to his landlord by neglecting to pay for the rent of his shop when due).

If I incur any expense for my own personal satisfaction I cannot call it a "Trade" expense. Expenses of this class should be entered in a Private or Personal Account and thence transferred to Capital Account; or a better plan is to draw out from Capital periodically such sums as I am likely to require for my personal use, the disbursement of which sums can be accounted for in my private account books.

Charges for Interest and Insurance may be considered as branches of Trade Expenses, the question of keeping separate accounts for these depending entirely on their relative importance to other expenses and charges of the business.

EXAMPLE.

Dr. TRADE EXPENSES. *Cr.*

1894		£	s.	d.			
Mar. 31	To Wages	81	4	6			
,, ,,	,, Rent	75	0	0			
,, ,,	,, Travelling	151	19	4			
,, ,,	,, Insurance	9	11	6			
,, ,,	,, Rates	15	15	10			
,, ,,	,, Commission	38	10	0			

The above is a sample of the appearance of Trade Expenses Account at the end of the quarter, when separate accounts have been kept of all the items enumerated above, and the balances of these separate accounts have been transferred to Trade Expenses Account.

There are other ways of subdividing and exhibiting the Trade Expenses of a business, some of which will be explained and exemplified later on. The *object* of this subdivision is to enable the proprietor readily to lay his finger on the weak spot

in his establishment charges, and to practise economy in any direction where there may seem opportunity for its prudent exercise.

Accounts of this class should always be posted into the Ledger *with as full detail as practicable.* An interesting column of this kind—

To Sundries		To Cash
To do.		To do.
To do.	OR THIS	To do.
To do.		To do
&c. &c.		&c. &c.

is of little use in showing where expenses may be reduced, or in what direction they are dangerously swelling. It may perhaps be said, But the folios refer to the page where full particulars will be found. That is not the point. It should be the object of Bookkeeping not only to record facts, but also to exhibit them. This can never be done by an unmeaning list of "dittos," however neatly written and however liberally supplied with references, in the pious hope that some one will be tempted to turn them up.

In whatever way Trade Expenses account is kept, it must be balanced and closed when making up the books, and the balance transferred to Profit and Loss account.

(2) DISCOUNTS.

Discount is the difference between the present and future value of any species of property that is being exchanged.

(*a*) What is called "true" or Mathematical discount is not used in Bookkeeping. When the rate of discount for bills is 5 per cent. a bill for £100 due 6 months hence would be cashed "or discounted" for £2 10*s.* 0*d.*, which is really the *interest* for 6 months, and differs somewhat, though very slightly, from the "true" discount. (See Lesson XIII., page 282.)

(*b*) The word "abatement" is sometimes used to denote the difference between cash and credit prices. It has a somewhat less precise signification than the word discount. The amount of "abatement" allowed on any transaction is usually a matter of special arrangement, whilst "discount" is allowed at a certain definite "rate," applicable to all transactions of the same class. Abatements and Discounts are both entered in "Discount account."

There are various ways of dealing with Discount transactions in Bookkeeping. When they are "Journalised" separately, the Ledger account of discounts appears as below :—

Dr. DISCOUNTS. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
Apr. 7	To Brown	2	10	0	Apr. 3	By East	8	18	6
,, 10	,, Jones	5	0	0	,, 5	,, North	3	4	0
,, 16	,, Robinson	10	7	9	,, 19	,, South	4	13	0
,, 21	,, B. R. (No. 3).....	3	6	0					
,, 24	,, ,, (No. 7).....		12	10					

Discount transactions are however so intimately and frequently connected with the payment and receipt of Cash that it is a very common and most useful practice to keep the original record of such transactions in a separate column, reserved for that purpose, in the Cash Book. (See Lesson XI.)

By this method Discount account in the Ledger appears in the abstract form (as below).

Dr. DISCOUNT ACCOUNT. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
April 30	To Sundries	21	16	7	April 30	By Sundries	16	15	6

In either case *Discount account must be balanced and closed when proving the books, and the balance carried to Profit and Loss account.*

JOURNALISING DISCOUNT TRANSACTIONS.

If a difficulty should occur to the student in Journalising any transaction relating to Discount, he may find it of assistance to remember that when Cash is debited, Discount account is also debited, the person who pays the Cash to the proprietor of the business being credited both with the Cash and the Discount.

On the other hand when Cash is credited, Discount is also credited, the receiver being debited both with the Cash and the Discount.

[Easy Rule for Cash and Discount :—Either debit both, or credit both.]

REASON.

Many beginners are at a loss to understand why the personal account should be debited not only with the Cash which the person receives but also with the Discount which he does *not* receive. This difficulty vanishes when the personal account is regarded in its true light as a property account.

It is perhaps not quite so easy to see the reason for the other side of the transaction, and it may be asked, If Cash account is credited because Cash goes out, why is Discount account credited? Does Discount go OUT? Certainly not. Discount account is not a property account as Cash is. If is rather a "labour" or "services" account, and the service that I have rendered—that has gone OUT from me—in return for which I am allowed Discount, is that of prompt payment. It may be that this service subjects me to some personal inconvenience, or it may be that I happen not to feel the pinch at all. In any case it is a distinct and definite service rendered, and one which has a well-defined "value in exchange."

(3) BAD DEBTS.

Bad Debts are "*Debts Receivable*" which have lost their value.

When a "Debtor" is "insolvent" (page 40) it is usual for him to call a meeting of his "Creditors," and lay the state of his affairs fully before them, asking them to accept a portion of what is due to them in full discharge of their claims. And the creditors usually agree to an arrangement of this kind, if they think it is honestly made, lest they should fail to get anything at all. A debtor, who has acted in this way, is said to have "*compounded*" with his creditors, and the amount offered in discharge of the debt is called a "*Composition*." The Composition is reckoned at so much in the pound; that is, for every pound of debt the debtor offers to pay a smaller amount. If

he thinks he can pay half, he offers a Composition of 10*s.* in the £, if only a quarter, he offers 5*s.* in the £.

This Composition is very frequently paid by instalments at specified intervals of time, sufficient to enable the debtor to "realise" (*i.e.* turn into Cash) his own "assets." These instalments are called "*dividends*." A Composition often consists therefore of several dividends.

Dr. BAD DEBTS. *Cr.*

1894		£	s.	d.	1894		£	s.	d.
April 30	H. Jones (Comp. 6/8 paid)	22	0	0	Apr. 7	M. Lanham (final div. 7d.).....	1	1	7
,, ,,	J. Hirst (deceased)	7	10	0					
,, ,,	W. Adams (no address)	5	12	0					
,, ,,	A. Watkins (dividends doubtful)	32	5	0					

In the above example the first entry on the Dr. side indicates that H. Jones who owed £33 has paid £11 (or 6*s.* 8*d.* in the £), and that the balance of his account, now regarded as hopeless, has been entered as a Bad Debt. The next entry (Hirst) signifies that the debtor having died, without leaving enough to pay his debts, I have no chance of recovering this amount. Adams appears to have run away and left no address behind him. Watkins is a still worse case. He has gone into the Bankruptcy Court owing me £32 5*s.* 0*d.*, and, as his liabilities amount to some thousands and his assets are insignificant, it is very doubtful whether any dividends at all will be declared. I had better put it all in Bad Debts account.

On the Cr. side appears the *receipt* of a dividend which I had formerly given up as irrecoverable. Lanham had already paid successive dividends of 5*s.*, 3*s.* 4*d.*, and 2*s.* 6*d.* in the £, and this additional 7*d.* is equally welcome and unexpected.

When "closing the books" Bad Debts account must be balanced and closed, and the balance transferred to P. and L.

JOURNALISING BAD DEBTS.

When Journalising Bad Debt transactions, beware of the common error with beginners, of treating Composition as a *Loss*.

That part of the debt actually received cannot be a loss! In the transaction *Received of J. Smith composition of* 6*s.* 8*d. in the £ on his debt of* £30, the first thing to attend to is the Cash actually received. This is plainly £10, for which Cash must be debited and Smith credited. The remaining £20 is a loss. Thereupon P. and L. or Bad Debts account must be debited, and £20 value having gone OUT from Debts Receivable, Smith's account must be credited (see page 51). The Journal entry will therefore be

Cash, Dr. . .	10	0	0		
Bad Debts, Dr.	20	0	0		
To Smith				30	0 0

Again in the transaction *Agreed to accept composition of* 10*s. in the £ on Smith's debt of* £30, *and received first dividend of* 3*s.* 4*d.*, the first thing to attend to is the Cash. This is not £15, but only £5. £15 is the amount I agreed to accept, and I shall not be fully satisfied until that amount has been paid, but just at present I have only received £5, and as I can only debit Cash account with Cash actually received, I make the entry Cash Dr. £5 against Smith Cr. £5. The remaining £25 I do not regard as all lost, but only £15 of it. I therefore debit P. and L. (or Bad Debts) and credit Smith with this £15, leaving a balance of £10 still in Smith's account.

Cash, Dr. . .	5	0	0		
Bad Debts, Dr.	15	0	0		
To Smith				20	0 0

The above method however depends on the assumption that Smith will be able and willing to fulfil his part of the bargain and pay the remaining £10. If I have not sufficient guarantee on this point I had better Journalise thus:

Cash, Dr. £5; Bad Debts, Dr. £25; To Smith £30.

passing the whole balance unpaid to Bad Debts account. Then when further dividends put in an appearance (if ever they do) I must *credit* Bad Debts account to make amends for the over-debiting to which that account has been subjected.

REASON.

The student will understand the reason for the above entries to P. and L. on the principle of Losses being debited, but he may not at first be able to see the reason for them on the IN and OUT principle to which we have attached so much importance.

This may be explained in two ways: (i.) the debits to P. and L. may be regarded simply as redressing the previous inequity of this account in having been at some previous time over-credited through the over-valuation of the particular asset "Debts Receivable—Smith," according to the law of Adjustment as explained in Lesson V.; or (ii.) the losses arising from Bad Debts may be regarded as the price paid for that particular kind of *service* or advantage which consists in the extension of trade through the adoption of the "credit" system. It is true that the "price paid" and the "advantage received" do not coincide in point of time, yet it is undeniable that every bad debt is a portion of the price paid for this kind of advantage, so that the matter is justly represented in the merchant's books as follows :—

IN	SERVICES ACCOUNT (P. & L.)	OUT
Advantage of higher prices and general extension of trade received by me through adoption of Credit system. Value estimated at actual cost price £80 10*s.* 6*d.*		

IN	DEBTS RECEIVABLE.	OUT
		Price paid (in vanished value of D. R.) for general extension of trade—being amount of Bad Debts this year—£80 10*s.* 6*d.*

GENERAL RULE.

The general lesson as to Subsidiary accounts of all kinds is that they should be closed into their main accounts *before* these are themselves closed. Hence all those accounts that are subsidiary to P. and L. have their balances transferred before P. and L. can itself be balanced. Indeed every account (except Capital) should be balanced before P. and L., for *there is no description of property account that may not at balancing time reveal a Gain or Loss that should be transferred to Profit and Loss account.*

With respect to these transfers, they can be made by simply carrying the balance to the opposite side of P. and L. account, but it is usual in practical work to pass them through the Journal.

When Profit and Loss account has been carefully prepared by the necessary transfers *from all accounts showing Gain or Loss,* its own balance of NET PROFIT must be transferred to the proprietors' several Capital accounts in the proportion agreed upon beforehand.

If now all the remaining accounts in the Ledger, including Capital, are "*closed*" and their balances (instead of being carried down) are carried to a new account opened for this special purpose called **Balance Account,** we shall have on the Dr. side of this account a list of all Assets and on the Cr. side a list of all Liabilities, including the Liability of the business to its own proprietors, that is, including Capital account, and the two sides of "Balance account" will be equal.

The "Trial Balance" is a useful intermediary in this process. Taking the Trial Balance given on page 101 we should first prepare therefrom a list of "Balances," or **Trial Closing Sheet,** as over leaf :—

Dr. TRIAL CLOSING SHEET. *Cr.*

Profit and Loss Account. Profits.	Balance Account. Liabilities.	Sundry Debit Totals as per Trial Balance.	Name of Account.	Sundry Credit Totals as per Trial Balance.	Balance Account. Assets.	Profit and Loss Account. Losses.
£	£	£		£	£	£
—	—	1,344	Cash	1,140	204	—
250	—	5,300	Goods	2,344	*3,206	
		90	T. E.			90
		3,000	Bank		3,000	
	400		Milne	400		
		400	Turner		400	
		1,000	Faber	600	400	
		50	Bacon		50	
		700	Rutland		700	
	650		Ralph	650		
50			P. & L.	50		
	3,555	50	W. J. Capital	3,500		105 } Balance
	3,355		G. S. Capital	3,250		105 }
		11,934		11,934		
	7,960				7,960	
300						300

* Amount discovered by "*independent valuation*" (see Lesson V.)

The value of a trial closing sheet is that it prevents *errors in transferring and closing* from appearing in the Ledger. If, for instance, a careless clerk should make an error in transferring the balance of Trade Expenses account as above to P. and L. (whether through the Journal or otherwise), this error would repeat itself several times before discovery, and would cause a number of mistakes in the books.

If, on the other hand, the error is made on the trial closing sheet, it is much more easily discovered, and can at once be rectified.

EXAMPLE.

Dr. TRADE EXPENSES. *Cr.*

	£		£
To Sundries	90	By P. and L.	90

Dr. PROFIT AND LOSS. *Cr.*

	£		£
To T. E.	96	By Sundries	50
To Net Profit W. J., 102½ G. S., 102½ ...	204	,, Goods	250
	300		300

Dr. W. J., CAPITAL. *Cr.*

	£	s.	d.		£	s.	d.
To Cash	50	0	0	By Balance	3,500	0	0
,, Balance	3,552½	0	0	,, Net Profit ...	102½	0	0
	3,602½	0	0		3,602½	0	0
				By Balance	3,552½	0	0

Dr. G. S., CAPITAL. *Cr.*

	£	s.	d.		£	s.	d.
To Balance	3,352½	0	0	By Balance	3,250	0	0
				,, Net Profit ...	102½	0	0
	3,352½	0	0		3,352½	0	0
				By Balance	3,352½	0	0

Notice that the trial closing sheet repeats the figures of the Trial Balance, and has also two extra money columns on each side, the headings of which sufficiently explain themselves.

These columns are used for the purpose of *sorting out* the balances, so that those which refer to P. and L. and those which refer to Balance account may appear in distinct columns.

(1) To make entries in these columns of balances, we have only to remember the *meanings* of our various balances and then to place them accordingly. **Goods account** is an example of a double balance, the amount £3,206 being obtained by independent valuation, as shown in Lesson V.

(2) To balance these columns, first balance the P. and L. columns and *place the balance against the name of the proprietor* (or proprietors as in the example). The balance of the proprietors' account can next be inserted under the head of "Liabilities," when the two columns of Balance account will exactly balance.

(3) The necessary Journal entries for the various transfers can now be made from the Trial Closing Sheet.

CLOSING ENTRIES.

Goods Account, Dr.	£250	
To Profit and Loss		£250
Profit and Loss Account, Dr.	300	
To Trade Expenses...		90
To W. J., Capital		105
To G. S., Capital		105
Sundry Accounts, Dr.	7,960	
To Balance Account		7,960
Balance Account, Dr.	7,960	
To Sundry Accounts		7,960

(4) From these it is easy to complete the Profit and Loss account and to make out the Balance account.

Dr. PROFIT AND LOSS. *Cr.*

To Trade Expenses		£90	By Bacon		£50
,, Balance		210	,, Goods		250
W. J.	105				
G. S.	105				
		300			300

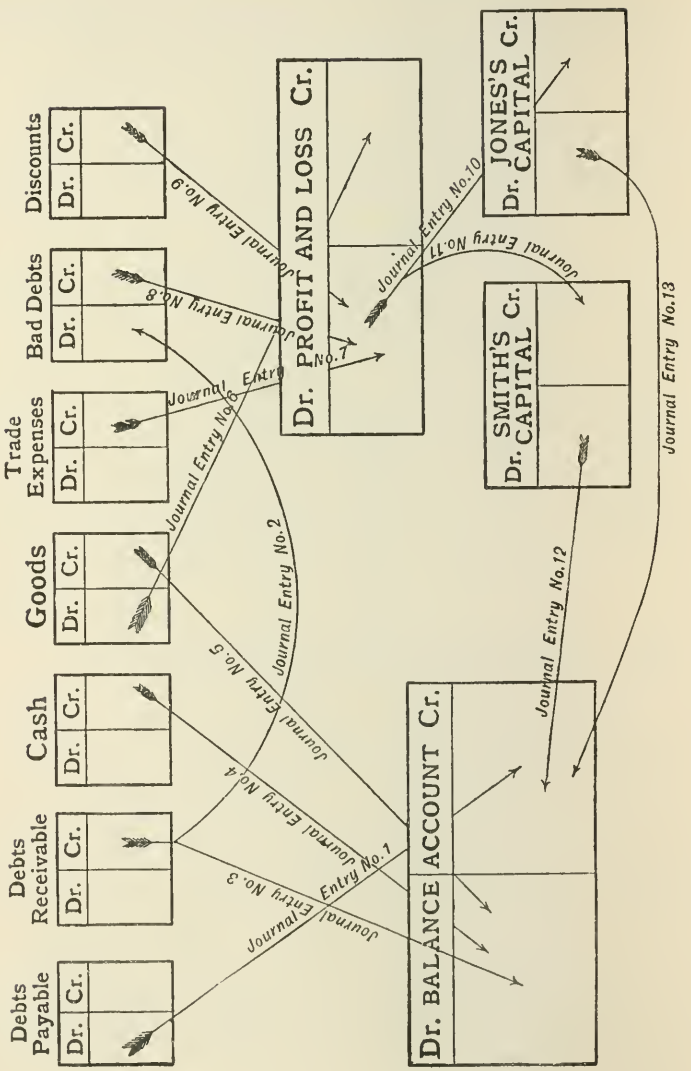
Dr. BALANCE ACCOUNT. *Cr.*

To Cash		£204	By Milne		£400
,, Goods		3,206	,, Ralph		650
,, Bank		3,000	,, Capital (W. J.)		3,555
,, Turner		400	Balance £3,450		
,, Faber		400	Net Profit 105		
,, Bacon		50	,, Capital (G. S.)		3,355
,, Rutland		700	Balance £3,250		
			Net Profit 105		
		7,960			7,960

Every account in the Ledger is now "*closed.*"

It will be seen from the above example, that the Balance *Account* is a reversal of the Balance *Sheet.* The Balance Account should be headed like an ordinary account with "Dr." and "Cr." It is a mistake to employ these terms (Dr. and Cr.) for a Balance *Sheet*, which forms no part of the Ledger at all, and is merely a useful statement drawn up on a sheet of paper for the information of those whom it concerns.

The whole scheme of balancing and closing the books, with the necessary transfer entries relating thereto, will be seen at a glance, by looking at the following diagram which has been stripped of all needless technicality to show the principle more clearly.


Debts Payable
Dr. Cr.
Debts Receivable
Dr. Cr.
Cash
Dr. Cr.
Goods
Dr. Cr.
Trade Expenses
Dr. Cr.
Bad Debts
Dr. Cr.
Discounts
Dr. Cr.
Dr. PROFIT AND LOSS Cr.
No.7
Dr. JONES'S Cr. CAPITAL
Dr. SMITH'S Cr. CAPITAL
Dr. BALANCE ACCOUNT Cr.
Journal Entry No.1
Journal Entry No.2
Journal Entry No.3
Journal Entry No.4
Journal Entry No.5
Journal Entry No.6
Journal Entry No.8
Journal Entry No.9
Journal Entry No.10
Journal Entry No.11
Journal Entry No.12
Journal Entry No.13

The successive transfers Nos. 1–13 shown in the diagram are passed through the Journal as follows :—

No. 1. Sundry Creditors Dr., To Balance Account Cr.
For Sundry Debts Payable as per list.

No. 2. Bad Debts Dr., To Sundry Debtors Cr.
For Sundry Debts Receivable written off as bad.

No. 3. Balance Account Dr., To Sundry Debtors Cr.
For Sundry Debts Receivable as per list.

No. 4. Balance Account Dr., To Cash Cr.
For Amount now on hand.

No. 5. Balance Account Dr., To Goods Cr.
For Value of Stock on hand as per valuation, Book folio —

No. 6. Goods Dr., To P. & L. Cr.
For Gross Profit on Sales — 18— to — 18–

No. 7. P. & L. Dr., To Trade Expenses Cr.

No. 8. P. & L. Dr., To Bad Debts Cr.

No. 9. P. & L. Dr., To Discounts Cr.
(**Note.**—Should the Credit side of Discount account be the heavier, as would be the case if Discounts allowed to me exceeded Discounts allowed by me, then the balance representing a Gain is transferred from Dr. side of Discount to Cr. side of P. & L., and the Journal Entry would be Discounts Dr., To P. & L. Cr.)

No. 10. P. & L. Dr., To Jones's Capital Cr.
For his share of Net Profit as agreed.

No. 11. P. & L. Dr., To Smith's Capital Cr.
For his share of Net Profit as agreed.

No. 12. Smith's Capital Dr., To Balance Account Cr.

No. 13. Jones's Capital Dr., To Balance Account Cr.

In practice it is common to amalgamate the above entries, journalising first those that refer to P. and L. and afterwards those that refer to Balance account.

EXAMPLE

1	**Subsidiary Accounts.**	
	No. 2.	Bad Debts, *Dr.* To Sundry Debtors.

2 **Transfers affecting Profit and Loss.**

No. 6.	Goods Account, *Dr.*	
	To Profit and Loss.	

	Profit and Loss, *Dr.*	
No. 7.	To Trade Expenses.	
,, 8.	,, Bad Debts.	
,, 9.	,, Discounts.	
,, 10.	,, Jones, Capital.	
,, 11.	,, Smith, Capital.	

3 **Transfers affecting Balance Account.**

No. 1.	Sundry Creditors, *Dr.*	
,, 12.	Smith's Capital, *Dr.*	
,, 13.	Jones's Capital, *Dr.*	
	To Balance Account.	

	Balance Account, *Dr.*	
No. 3.	To Sundry Debtors.	
,, 4.	,, Cash.	
,, 5.	,, Goods.	

The student may perhaps not be able to see perfectly clearly (though he apprehends the general principle) how it is that the two sides of Balance account will necessarily be equal.

The whole theory of Double Entry depends on the truth of the two axioms of Euclid.

(i.) If equals be added to equals the wholes are equal.

(ii.) If equals be taken from equals the remainders are equal.

The Ledger starts with nothing on the Dr. side and an equal amount on the Cr. side.

Every time a transaction is recorded in it, an equal amount is added to the Dr. and Cr. side. That is, equals are added to equals. If this is correctly done, the wholes will be equal, that is the total on the Dr. side will equal the total on the Cr. side. This we proved in Lesson VII. by Trial Balance.

(JONES, *loquitur:* "Yes, I can see so far very well, but I get a little confused with all these transfers and balancings and closings.")

Every time an account is balanced, we take an equal amount from the Dr. side and the Cr. side, and leave only the balance or overplus. Therefore in the process of balancing the accounts, we "take equals from equals," and the remainders (consisting of collections of balances instead of collections of totals) will be equal.

Dr.	*Cr.*
10	10
10	10
10	10
	10
	10
	10
	10

Every time a "transfer" entry is made, the same amount is entered on the Dr. side of one account and on the Cr. side of another. That is, equals are added to equals.

The Balance account is simply a collection of all the remaining "balances" of the Ledger. If therefore (i.) the transactions have been correctly Journalised and Posted, (ii.) the accounts correctly balanced, and (iii.) the transfers correctly made, it clearly follows that the sum of the debit balances of the Ledger will equal the sum of the credit balances—that is to say, the two sides of "Balance account" will be equal.

Summary of Lesson VIII.

1. Accounts are said to be "closed" when they are ruled off, and the balance is not brought forward, but dealt with in some other way.

2. In theory all accounts are closed at Balancing time.

3. In practice personal accounts are seldom closed unless they are settled.

4. Subsidiary accounts are those that are kept for the purpose of showing the details of certain classes of transactions more fully than is desirable in the main account.

5. Any account may have an account subsidiary to itself.

6. The term subsidiary is sometimes restricted to those accounts that are subsidiary to P. & L.

7. Trade expenses may be defined as exchanges of Cash, Goods, or any other species of Property for services rendered to the business.

8. Personal Expenses should be distinguished from Trade Expenses.

9. Trade Expenses account may have Subsidiary accounts (*e.g.* Interest, Insurance, Wages, &c.), if there is any class of expenses sufficiently important to deserve it.

10. Accounts of this class should be posted with all practicable fulness of detail.

11. Discount is the difference between present and future value.

12. Mathematical or "true" discount is not used in Commerce. Mercantile discount is calculated as Interest.

13. Discounts are usually recorded in a separate column in the Cash Book.

14. Discount transactions are Journalised by remembering that Cash and Discount follow the same law. Either debit both or credit both.

15. Discount is the price paid for the advantages of Ready Money.

16. Bad Debts are Debts Receivable which have lost their value.

17. "Composition" is that portion of a debt offered and accepted in full discharge of all claim. Composition may be paid in one or more "dividends."

18. Bad Debts transactions are Journalised by giving attention to the Cash first—the balance being wholly or partly transferred to Bad Debts according to the expectation of the proportion that will probably be eventually received.

19. Bad Debts are the price paid in exchange for the advantages of the Credit system of trade.

20. *All Subsidiary accounts must be balanced before the main accounts to which they belong.*

21. The balance of P. & L. is called Net Profit, and must be transferred to the accounts of the several proprietors.

22. If the balances of all open accounts are now transferred to Balance account, the two sides of this latter account will necessarily be equal.

23. This equality depends upon the truth of the axioms—(*a*) If equals be added to equals the wholes are equal, (*b*) If equals be taken from equals the remainders are equal.

Questions and Exercises on Lesson VIII.

1. Show by examples the difference between closing an account and balancing it.

2. Why are accounts not closed in practice when proving the books?

3. What are Subsidiary accounts? Show that Real and Personal accounts may have Subsidiary accounts.

4. Define Trade Expenses; show that these may arise in other ways than by payment of cash, and give an example of Trade Expenses account with details.

5. Distinguish between Trade Expenses and Personal Expenses, and give examples of various ways of dealing with the latter.

6. What are "Discounts" and "Abatements"? How are original entries of Discounts usually made? What is done with the balance of Discount account?

7. Journalise the following Discount transactions:—

(i.) Smith settles his account of £50, less 5 per cent. discount.

(ii.) Paid J. Adams	27	5	0			
And he allowed me Discount	1	5	0	28	10	0
(iii.) Received of J. Hamilton ...	83	0	0			
Discount allowed	2	0	0	85	0	0
(iv.) Paid J. Jones	79	2	3			
Less Abatement	4	2	3	75	0	0

8. Why are Discounts "received" debited, and Discounts "allowed" credited? Show that this practice is in conformity with the general law.

9. What is meant by Bad Debts? Would you call a Bad Debt an "Asset" or a "Liability"? What are doubtful debts?

10. Journalise the following:—

(i.) Received of Mr. Howard Composition 6*s.* 8*d.* in the £.
(**Note.**—Mr. Howard owed me £21.)

(ii.) S. Porter arranges under satisfactory guarantee to pay me Composition of 12*s.* in the £, and I have received first dividend of 4*s.* in the £ this day.
(**Note.**—Porter owed me £85 10*s.* 0*d.*)

(iii.) Ward (who owed me £10) pays first and final dividend of 2*s.* in the £.

(iv.) Received of H. Tupman unexpected dividend of 1*s.* 6*d.* in the £ on a debt of £20, which I had previously written off as bad.

11. It may be said that the transference of Gross Profit from Goods account to P. & L. and the transference of a Bad Debt to P. & L. are simply various applications of the same general law. Give a clear statement of the general principle underlying all operations of this kind.

12. What is the general rule relating to the balances of Subsidiary accounts? What would be the result of balancing P. & L. before Trade Expenses?

13. What is a Trial Closing Sheet? What practical advantage arises from its use?

14. Show by a diagram or otherwise, the successive transfer entries necessary to be made when closing the Books. How are these entries amalgamated in practical work?

15. Explain clearly how it is that the two sides of Balance account ought to agree.

16. What is the difference between Balance Account and Balance Sheet?

17. (i.) Journalise and Post the following Transactions.
(ii.) Test the accuracy of your Posting by a Trial Balance.
(iii.) Balance and close the books.

Transactions of Messrs. Stanford and Mills. Stanford's Capital £945 10s. Mills' Capital £1,000. Profits to be divided equally.

1894		£	s.	d.
April 1	Cash in Hand	117	10	6
,, ,,	Value of Stock	1,792	10	0
,, ,,	Owed to him by H. Pyne	132	0	0
,, ,,	,, ,, ,, by J. Allen	21	13	0
,, ,,	,, by ,, to R. Dudson	106	12	6
,, ,,	,, ,, ,, to H. Walker	11	11	0
,, 2	Sold Goods to W. Leighton	28	4	0
,, 3	Paid to H. Walker	10	10	0
	Discount allowed	1	1	0
,, 5	Received of J. Allen	20	10	0
	Discount allowed	1	3	0
,, 6	Sold Goods to R. King	8	2	6
,, 8	Received of W. Leighton	25	0	0
,, 10	Paid for Wages	7	5	0
,, 13	,, ,, Rent	12	0	0
,, 15	Wrote off balance of Leighton's Debt as "bad"			
,, 16	Sold Goods to H. Pyne	71	6	0
,, 18	,, ,, ,, R. King	9	0	0
,, 22	Paid R. Dudson	100	0	0
	Was allowed as discount	6	12	6
	(Dudson's Account should now be closed.)			
,, 25	Received of R. King	16	2	6
	Allowed as discount	1	0	0
,, 27	Bought Goods of R. Dudson	129	0	0
	(Having paid Mr. Dudson, Mills & Stanford feel at liberty to give a fresh order.)			
,, 30	Monthly Cash Sales	191	2	1
,, ,,	Private Drawings	44	16	1
	Mills ... 20 0 0			
	Stanford ... 24 16 1			
,, ,,	Value of Stock on Hand	1,675	10	0

PART II

APPLICATION

OF THE LAWS AND PRINCIPLES ENUNCIATED IN PART I

PART II

APPLICATION

LESSON IX

RULES AND TOOL

The object of all good bookkeeping is the exhibition of the growth or decline and present value of **CAPITAL**, and of each of the parts of which Capital is made up.

A perfect Balance Sheet shows all this in the clearest and most concise manner. A perfect Balance Sheet should not only give the present value of each of the component parts of **CAPITAL**, but should also *indicate* its growth or decline since the last statement. (See page 143.)

The one aim of the skilled bookkeeper is therefore to be able to produce when necessary a clear and correct Final Balance Sheet.

The twofold Process by which this result is secured is the use of Journal and Ledger, the former (with its many offshoots and substitutes, such as Day Book, Cash Book, &c.) containing the chronological record of the various transactions of the business, and the latter the classified record from which the Balance Sheet is made out.

The threefold Principle by which the keeping of the books leads to the desired result (a true Balance Sheet) may be stated as follows :—

(1) *The maintenance of a constant equipoise between debits and credits.*

(2) *The observance of a radical distinction between Property and Proprietary accounts.*

(3) *The frequent adjustment of all Property accounts by Independent Valuation and Transfer.*

These may be briefly stated as rules, and as I shall often want to refer to them, I will call them rules E, D, and A respectively.

Rule E.

The rule of Equilibrium.

Keep your Debits and Credits equal.

Rule D.

The rule of Discrimination

Discriminate between Property and Proprietary accounts.

Rule A.

The rule of Adjustment.

Adjust Property accounts by independent valuation.

These principles having been fully dealt with in Part I. of this work, it is not necessary to dwell upon them here.

Before proceeding to examine in detail the method of recording the Incomings and Outgoings of the various parts of which Capital consists, it will be well to notice some of the Bookkeeper's special tools. These consist mainly of certain classes of accounts specially designed to meet certain difficulties.

Let us take a brief preliminary glance at these eight :—

1. Suspense accounts.
2. Subsidiary accounts.
3. Combined (or columnar) accounts.
4. Amalgamated (or collective) accounts.
5. Working accounts.
6. Reserve accounts.
7. Detail columns.
8. Tabular proof.

I.—SUSPENSE ACCOUNTS.

The necessity for these accounts may arise in several ways.

(*a*) A remittance may be received from a careless correspondent who omits to state his name. Hence the following Journal entry :—

Cash Dr. To *Suspense account* Cr.

When we ascertain the name of our forgetful friend, we make a second Journal entry :—

Suspense account Dr. To A.B. Cr.

(*b*) Our clerk, or agent, or debt collector, may hand in to us certain sums without being able at the time to state the names and amounts of the parties who have paid in. The following entry meets the difficulty :

Cash Dr. *To Suspense Account* Cr.

After a short lapse of time we are supplied with the necessary particulars, which enable us to transfer the amount which we first placed to "Suspense account," and distribute it into the proper channels, in some such way as this :—

Suspense account Dr. . . .	£100	
To A.B. Cr.		£40
To C.D. Cr.		25
To E.F. Cr.		35

(*c*) A sum of money may be received from some person with whom we have dealings in more than one capacity, and on whose behalf we keep two or more separate and distinct accounts in our books, and we meet the difficulty by debiting Suspense account.

(*d*) We employ a clerk to pay certain small bills, &c., for us, and furnish him with £5 for the purpose, and we make the following Journal entry :—

Suspense account Dr. To Cash Cr.

On receiving a statement of the various payments together with the balance, we straighten matters by journalising as follows :—

A.B. Dr. . . .	£2	0	0
C.D. Dr.	1	0	0
Trade charges Dr. .		10	0
Cash Dr.	1	10	0
To Suspense account	£5	0	0

(*e*) A question of common occurrence and of some importance arises when money has been paid away and it is doubtful whether the expense ought to be borne by some party outside the business or by the firm. If the former, of course debit A.B., but if the latter, debit Trade Expenses. When a doubt arises, debit Suspense account, and let the amount remain there until the doubt is resolved.

PRACTICAL CAUTIONS.

(i.) Beware of using "Suspense account" as a mere procrastinatory agent, to save the personal trouble of ferreting out at the time the right account to be debited or credited. It is far better to do this *at once*, whenever it is possible. It saves trouble in the long run.

(ii.) Pass your Suspense account under constant and careful scrutiny, in order to clear it up, item by item, as rapidly as possible. Entries sometimes lie rusting in "Suspense account," until it is almost impossible to recall the circumstances and to deal properly with the account.

II.—SUBSIDIARY ACCOUNTS.

These were explained so fully in Lesson VIII. that it is unnecessary to say more about them here.

III.—COMBINED ACCOUNTS.

Whenever we wish to see the separate results of certain distinct classes of transactions *side by side* under one general heading, this is effected by keeping what may be termed a "combined" or "columnar" account.

Cash account is a good example of this class. Every Cash Book with Discount columns, the totals of which are not posted into the Ledger, is in reality a "Combined" Ledger account. (See Lesson XI.)

Trade Expenses account is often kept as a combined account.

EXAMPLE (*Dr. side only*).

Dr. TRADE EXPENSES.

	Rent.	Wages.	Stamps.	Sundries.	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Week ending Jan. 7	1 0 0	1 14 6	0 13 9	1 11 9	5 0 0
,, ,, ,, 14	2 12 9	1 14 6	1 0 3	3 4 6	8 12 0

The above items are posted from the Petty Cash Book, which is also ruled in the columnar form. The advantages of this method are obvious. It shows not only the weekly sum total of current trade expenses, but also the amount under each head, and these are arranged in such a manner as to facilitate and *invite* comparison week by week, whereby any undue growth of expenditure is traced to its source and checked before it reaches mischievous proportions.

IV.—COLLECTIVE ACCOUNTS.

Collective accounts are used when it is desirable to collect together a number of scattered individual accounts under one heading.

These accounts are specially useful when there are a number of *single* debits or credits to separate individuals.

If there are *several* debits or credits to any one individual, it is better not to include such a person in a Collective account.

As an example, suppose I am a bookseller and I have half-a-dozen subscribers to a certain periodical, these subscribers having no other dealings whatever with me.

Instead of opening separate accounts to each of my six subscribers, A, B, C, D, E, F, I will open a Collective account headed

Dr. SUBSCRIBERS' ACCOUNT. *Cr.*

		£	s.	d.			£	s.	d.
Jan. 1.	A.	1	1	0	Jan. 1.	B.	1	1	0
,,	B.	1	1	0	,, 15.	E.	1	1	0
,,	C.	1	1	0	Feb. 1.	A.	1	1	0
,,	D.	1	1	0	,,	F.	1	1	0
,,	E.	1	1	0					
,,	F.	1	1	0					

On receiving orders to supply the periodical I debit this account with the annual subscription of each. Then on receiving the cash, instead of crediting A, B, C, etc. (who have no separate accounts with me), I credit "Subscribers' account."

Accounts of this description are very useful to avoid the indiscriminate growth of a number of small accounts, which give much needless trouble to the balancing clerks when closing the books.

Perhaps you remember an example of this kind of account in the appendix to the *First Lessons*.

V.—MIXED OR WORKING ACCOUNTS.

Accounts of this class are useful but dangerous. Why is this?

A working account is one in which expenses of two entirely different kinds are mixed together—expenses that increase the value of property, and expenses that are incurred in the hope of future profit.

The distinction between these two classes of expenses is the one so often insisted upon in manuals of Bookkeeping as the distinction between "Capital" and "Revenue."

Mixed accounts are dangerous precisely because they do not mark this distinction. On the contrary they cover it up and well-nigh obliterate it. They are in fact a violation of Principle D.

Perhaps an example will make the matter plain. I will take one compiled from Exercise XVII. in Hamilton and Ball's Bookkeeping. In this exercise the proprietor, W. Johnson, is a Miller and Corn Merchant, and wishes to show separately his Profit or Loss as a Miller and as a Corn Merchant. Here is his mill account, showing a Loss of £8 11*s.* 6*d.* on the month's transactions.

Dr. MILL ACCOUNT. *Cr.*

		£	*s.*	*d.*			£	*s.*	*d.*
Jan. 1.	Flour at Mill ...	22	16	0	Jan. 26.	Reeve	40	0	0
,, 4.	10 Qrs. Wheat .	21	0	0	,, 30.	Cash	24	12	0
,, 9.	Young... ...	10	0	0	,, 31.	V.S.	36	5	0
,, 25.	Repairs ...	9	7	6	,, ,,	Net Loss, Carried to P. and L.	8	11	6
,, 29.	Wheat... ...	26	5	0					
,, 30.	Wages ...	10	0	0					
,, 31.	Wear and Tear of Steam Engine	10	0	0					
		£109	8	6			£109	8	6
Feb. 1.	To Balance, V.S.	£36	5	0					

Notice that in the above account the debits on Jan. 1, 4, 9, 29, and 30 are all genuine additions to the value of the property, but the debits on Jan. 25 and 31 are not. Hence a hasty glance at this account before adjusting the balance by independent valuation (Rule A) might easily lead to the erroneous idea that the mill property was worth £45.

Assets of this kind artificially puffed out (like the frog in the fable) sometimes find their way into the Final Balance Sheet and give the proprietors a very incorrect idea of their true position.

But cannot the balance of a Working account be accurately adjusted by Valuation according to Rule A?

No doubt this can be done in many cases, and IF people always could and always would adjust such accounts as "Mill account" has been adjusted on the preceding page, no great harm would be done. The danger lies in the fact that sometimes through the difficulties of valuation, and sometimes through indolence or forgetfulness, this is not done, and the balance of a Mixed account slips unnoticed into the Balance Sheet amongst the other honest assets, like an uninvited guest to a wedding feast.

If "Mixed" accounts are so dangerous, why are they ever used?

Because it is exceedingly difficult in many cases to distinguish between the two classes of expenses referred to. Take as a very familiar example the wages of farm labourers. When the labourer is sowing or ploughing or reaping, his labour clearly tends to a *direct* increase in the value of the grain. But very much of this sort of work has no immediate effect on the value of the farmer's stock or the farmer's crops. Yet it would be impossible to distinguish between the cost of these two kinds of labour.

All we can say then is that "Mixed" or "Working" accounts

had better be avoided wherever it is practicable, but whenever used, the adjustment principle must be employed as a corrective as frequently as possible.

VI.—RESERVE ACCOUNTS.

Reserve accounts are opened to provide for Future Liabilities. They are opened from motives of prudence, and might be called Prudential accounts. Reserve accounts may be divided into two classes, and there is a radical distinction between the two.

I. Those that are created to meet Liabilities that do not at present exist, but that we know will exist by and by.

II. Those that are opened to meet Liabilities that we hope never will exist, but that *may*. [Liabilities of this class are called *Contingent* Liabilities. They only come into existence in the event of certain "contingencies."]

I. (*a*) Imagine that you have just taken over a business where everything is in spick-and-span order. Your warehouses are in excellent repair, your machinery is new, your paint is everywhere fresh and clean. During the first year you will spend next to nothing on Repairs. If you value your property carefully at the end of the year you cannot *see* that it is worth less than at the beginning, but you know that each year you will have to spend more and more on repairs, and therefore as a prudent man you start out of the profits of the first year a Reserve *Fund* from which future expenses of this kind may be taken.

(*b*) Again suppose that in the same business you find at the end of the year you have £1,000 worth of ordinary Debts Receivable. Probably you have made no bad debts at present. You have not had time. Yet you may be pretty sure that you will never see the whole of that £1,000. You have no idea

which of your debtors will prove defaulters, but you are tolerably certain *some* will. So *to be on the safe side* you open a "Reserve Bad Debts" account and credit it with £50.

II. *Contingent Liabilities.* A reserve fund that is opened to meet future contingent liabilities stands on a different footing from either of the above. It is really a portion of Capital, whilst the reserves hitherto spoken of are no parts of Capital. They are not even liabilities, though they sometimes appear on the Liabilities side of a Balance Sheet, much to the confusion of students. They are really deductions from the Assets, and should so be shown, as in the example below.

Supposing you decide to put aside £100 a year out of your net profits as a General Reserve Fund to cover future unforeseen and unexpected losses, you make an entry

P. and L. Dr. To General Reserve Fund Cr.,

and your final Balance Sheet will appear somewhat as under.

BALANCE SHEET.

Liabilities.	December 31, 1894.	*Assets.*
D.P. £1,500		Cash £800
Capital ... £5,400 } ... 5,500		Goods 3,825
Reserve ... 100 }		Premises ... 1,500 } ... 1,425
		Less Reserve ... 75 }
		D.R. ... ... 1,000 } ... 950
		Less Reserve B.D. 50 }
£7,000		£7,000

VII.—DETAIL COLUMNS.

Inner money columns are often used for collecting details and exhibiting them in one amount in the outer column. A

very familiar example of the Detail column is found in the ordinary tradesman's Day Book, where entries of this kind abound :—

DAY BOOK.—*Jan.* 1.	Detail Column.	
John Jones, London Road.	£ s. d.	£ s. d.
12 lbs. Currants at 5d.	0 5 0	
½ Doz. Sherry at 30s.	0 15 0	
1 Tin Mixed Biscuits	0 7 6	1 7 6

But we may use a second and even a third Detail column, as in the following example of a portion of the Liabilities side of a Balance Sheet, where we have given an illustration of the principle referred to on page 133.

BALANCE SHEET.—December 31.

LIABILITIES.

	(*a*) £	(*b*) £	(*c*) £	(*d*) £
Sundry Liabilities				1,750
A.B. Capital, Jan. 1		1,000		
Add Interest	50			
Net Profit	300	350		
		1,350		
Less Drawings		250	1,100	
C.D. Capital, Jan. 1		2,000		
Add Interest	100			
Net Profit	300			
Salary	100	500		
		2,500		
Less Drawings		450	2,050	3,150
				5,900

In the above example A.B. and C.D. are partners. Column (*d*) shows the total Capital of the two partners. Column (*c*)

shows the net amount of each partner's capital clear of details. Column (*b*) shows the growth and decline of the capital since Jan. 1. Column (*a*) shows the details of the additions to each partner's capital during the year from all sources.

The great advantage of detail columns is that they show *at one view* not only the sum totals of certain desired results, but also particulars as to the sources of these results, which particulars might never be looked at if they had to be hunted up from different pages of an account book.

VIII.—TABULAR PROOF.

If I take a square of figures consisting of four rows and four columns, as below, and then cast up (i.) the horizontal rows, (ii.) the vertical columns, it is manifest that the sum of the horizontal castings will equal the sum of the vertical castings.

14	20	7	38	79
6	16	19	50	91
52	26	12	5	95
9	10	3	44	66
81	72	41	137	331

There is scarcely any department of Bookkeeping to which the above principle may not be applied with advantage. Tabular Journals, and Tabular Ledger accounts, afford abundant opportunity for proving its utility. Each page of a Journal or Ledger kept in this form **proves itself** (subject to the possibility of compensating errors), and thus reduces the chance of error in the final balance.

A simple example taken from the *Primer of Bookkeeping* will suffice for the present to illustrate the use of this tool.

Suppose I am a merchant dealing in two articles, say *Corn* and *Timber*, and I have credit dealings with two people only, *Ashton* and *Beechwood*, my Transactions for the month of November being summarised as follows:—

Nov. 1, Cash £100, Timber £1,000, Wheat £1,000.
Received: of A. £20; B. £95 (Dis. £5); for Timber £30; for Wheat £40; Commission £10.
Paid: A. £30; B. £30; for Timber £30; Wheat £30; T.E. £20; P.E. £25.
Bought: (of A.) Timber £50, Wheat £50; (of B.) Wheat £40.
Sold: (to A.) Timber £30; (to B.) Timber £100, Wheat £60.
At the end of the month I ascertain by Valuation of Stock that my Profit on Timber has been £60, and on Wheat £25. Whence I obtain my Net Profit, £70.

All the above facts can be neatly and accurately recorded in a Tabular Journal as follows, where the horizontal rows stand for *Credits*, and the vertical columns for *Debits*:—

TABULAR JOURNAL.

Dr.

	A.	B.	Cash.	T.	W.	P.&L.	Cap.		
	£	£	£	£	£	£	£	£	
Ashton ... *Cr.*	—	—	20	50	50	—	—	120	*Cr.*
Beechwood *Cr.*	—	—	95	—	40	5	—	140	*Cr.*
Cash ... ... *Cr.*	30	30	—	30	30	20	25	165	*Cr.*
Timber ... *Cr.*	30	100	30	—	—	—	—	160	*Cr.*
Wheat ... *Cr.*	—	60	40	—	—	—	—	100	*Cr.*
P. and L. ... *Cr.*	—	—	10	60	25	—	—	95	*Cr.*
Capital ... *Cr.*	—	—	100	1,000	1,000	70	—	2,170	*Cr.*
	60	190	295	1,140	1,145	95	25	£2,950	Total Credits.
	Dr.	*Dr.*	*Dr.*	*Dr.*	*Dr.*	*Dr.*	*Dr.*	Total Debits.	

Such a Journal would hardly need posting into a Ledger. A Final Balance Sheet might be at once made out as follows :—

BALANCE SHEET.

Liabilities and Capital.	Journal Debits.	December 1, 1890.	Journal Credits.	Assets.
£	£		£	£
60	60	Ashton	120	—
—	190	Beechwood	140	50
—	295	Cash	165	130
—	1,140	Timber	160	980
—	1,145	Wheat	100	1,045
—	95	P. and L.	95	—
2,145	25	Capital	2,170	—
2,205	2,950		2,950	2,205

We have now looked at the Work, the Rules, and the Tools.

The **work** of the bookkeeper is the Final Balance Sheet. Do not forget that. Every junior clerk in every city office is helping from the first of January to the thirty-first of December in this all-important work. Every entry in every Journal, Day Book, Cash Book, Invoice Book, Bill Book, and Ledger, and I know not how many besides, bears on the Final Balance Sheet. However trivial and wearisome the particular occupation in which he is engaged, the true Workman likes to find out how it affects the great whole to which it leads, for it is only in this way that he can really understand what he is about.

The **laws** of Bookkeeping are exceedingly simple. They are few, clear, and definite, and applicable to the widest divergencies of business experience.

The **tools** with which the Bookkeeper works to produce his finished result on December 31 are very various, but consist in the main of Dr. and Cr. accounts. We have taken a glance at six special kinds of Dr. and Cr. accounts: (1) *Suspense accounts*, for the record of doubtful claims or responsibilities; (2) *Subsidiary accounts*, for keeping distinct different classes of debits and credits which yet have a common drift, and must eventually be grouped together; (3) *Combined accounts*, in which two or more distinct accounts are kept side by side in columns; (4) *Collective accounts*, for grouping kindred claims or responsibilities together; (5) *Working or Mixed accounts*, in which certain classes of Property accounts are debited with expenses that do not (in a *direct* manner) add to the value of the property; and (6) *Reserve accounts*, for making provision for future liabilities. We have also briefly illustrated the use of *Detail columns* and the advantage of *Tabular proof*. The Lessons that follow will contain examples of the use of all these tools.

Exercise (I.) on Suspense Accounts.

Journalise, Post, and Prove, the following series:—

On January 1, 1895, I had cash in hand £170, Goods £400, W. Watson owed me £50, W. Watson and Son owed me £40, and H. Adams owed me £100, beside sundry small debts owing to me amounting to £30. On the same date I owed S. Pett £75, and had received on the 28th December, 1894, £15 from W. Watson, but not knowing whether to credit W. Watson or W. Watson and Son, I had passed it to a Suspense account pending inquiries. Jan. 3. Sold Goods to E. Burton, £6. Jan. 4. Paid for Fittings and Improvements, £40. Jan. 6. Goods lost during repairs and improvements, unable to be accounted for, £12. Jan. 7. Adams pays £85. He disputes the remainder of the debt, saying the goods were not according to order. Upon inquiry I am convinced that my claim is just, and decline to give way. Jan. 8. W. Watson writes to say that the cash sent on the 28th was for his own private account. Jan. 9. My clerk Jones pays in £6 12*s.* 6*d.* and will furnish particulars in a few days. Jan. 11. Received in an envelope bearing Liverpool postmark £5 note. Jan. 12.

£2 worth of the Goods lost during repairs were discovered. Jan. 13. Receive remittance from W. Watson and Son for £52, with distinct instructions that it is "to settle the account of the Firm." Write to W. Watson to say that we have credited the Firm according to instructions, but that this leaves an *apparent* balance of £12 in their favour. Can they explain? Jan. 14. Sold Goods to J. Jameson, £90. Jan. 15. W. Watson and Son forward for my inspection invoice of Goods supplied by me to them on Jan. 2, *during the alterations*, £12. Jan. 17. Paid my traveller £10, to be accounted for on his return. Jan. 18. Particulars of Cash received on Jan. 9—[collected from E. Burton, £5; collected from sundry persons: A. B. £1, C. D. £1, Total, £7. Less expenses, 7*s.* 6*d.*] Jan. 20. Receive letter from Jackson, of Liverpool, explaining that the remittance on the 11th was for certain goods which I am requested to forward. This I do as desired. Jan. 25. My traveller returns and hands in the following report: [Purchased sundry articles for stock from sundry persons, £15, and paid on account thereof, £5. Received order from Cousins, £25. Travelling Expenses, £2. Cash returned, £3.] Jan. 27. Cousins' order executed and goods duly despatched. Jan. 31. Monthly Cash Sales, £120. Monthly Cash Purchases, £100. Monthly Trade Charges, £12. Monthly Private Expenses, £15. Value of Stock, £307 7*s.* 6*d.*

Exercise II.

Enter in Ledger without Journal. Then Balance and Prove.

NOTE.—Cash, Bank, and Discount are to be kept as a combined Ledger account in columns. Wages account is subsidiary to Goods account. Trade Expenses and Discounts are both subsidiary to Profit and Loss. Collective accounts are to be opened as follows: Sundry Rents Receivable; Sundry Outstanding Charges; Sundry Small Debts Receivable (amounts under £5). Thomson has a small contra account for the supply of Office Stationery, &c.; this is subsidiary to his regular Ledger account. Cheques received are immediately paid into Bank.

					£	*s.*	*d.*
Jan. 1.	Cash at Office				7	15	6
	,, at Bank				250	0	0
	Sundry Rents Receivable				17	4	6
	,, Small D.R.—Dixon	1	0	0			
	Willson	1	10	0			
	Jackson	2	10	0			
	Robson	2	5	0			
	Morrison	3	0	0	10	5	0

		£	s.	d.
	Goods in stock valued at	1575	0	0
	W. Macintosh owes	1300	0	0
	R. Mackay owes	765	0	0
	Sundry outstanding charges	24	12	6
	Due to Thomson for Office Stationery	9	10	0
	Due to H. Williamson	364	2	6
Jan. 2.	Received Cheque from R. Mackay	500	0	0
	Purchased of him Goods value	250	0	0
	And allowed him Discount	15	0	0
,, 3.	Paid for Wages by cheque 12 0 0			
	,, ,, by cash 2 5 0	14	5	0
.. 4.	Sold Goods to Thomson	157	0	0
.. 5.	Paid Williamson cheque	360	0	0
	And was allowed Discount	4	2	6
,, 6.	Collected from Dixon 1 0 0			
	,, ,, Willson 1 10 0			
	,, ,, Morrison 3 0 0	5	10	0
.. 7.	Collected Sundry Rents	9	2	6
,, 8.	Sundry small Sales—Johnson ... 2 2 0			
	Richardson ... 2 2 0			
	Robertson ... 0 10 0	4	14	0
.. 9.	Paid Rent due Dec. 31.	12	12	0
,, 10.	Received cheque from Macintosh ... 1000 0 0			
	And Cash 300 0 0	1300	0	0
,, 11.	Sold Mackay Goods	420	0	0
,, 12.	Sent to Thomson for Office Stationery	2	10	0
,, 13.	Settle remaining outstanding charges, receiving an abatement thereon of	0	15	6
,, 14:	Paid into Bank	260	0	0
,, 15.	My Rent Collector reports that he has now received all the Rents due up to the 31st except Wicks, and he hands me the cash, viz.	1	15	0
,, 18.	Bought Goods for Cash (cheque) ... 135 8 6			
	On which I received Discount ... 5 8 6	130	0	0
,, 21.	Sold Goods to Thomson	48	15	0
,, 23.	Received from Thomson 100 0 0			
	,, ,, Jackson 2 10 0			
	,, ,, Johnson 2 0 0	104	10	0
	NOTE.—Johnson was allowed 2*s.* Discount.			
,, 26.	Paid for Wages	16	16	0
,, 30.	Private Expenses	25	0	0

		£	s.	d.	£	s.	d.
Jan. 31.	Due to Landlord, One Month's Rent	12	12	0			
	Due to Workmen for Wages	10	5	0	22	17	0
	Due from Tenants for January				14	10	0
	Monthly Trade Expenses				21	0	0
	Value of Stock				1581	8	6
	Subsidiary accounts to be closed into their principal accounts.						

Exercise III.

NOTE.—This Exercise contains examples of "Mixed" and "Reserve" accounts.

On Jan. 1 my affairs stood as follows: I had Cash, £1,235; Wheat, £720; Horses and Implements, £450; Feeding Stuffs, £103; and Live Stock value £3,100. Mr. Burrell and Mr. Jewson owed me respectively £327 and £140, and sundry small debts due to me amounted to £225. Lest these might not realise their full value, I had created a Reserve Bad Debts Fund, amounting to £30. Farm Buildings belonging to me £1,000. On the other hand, I owed Mr. Summers £290, Mr. Mills £284, and sundry small debts £166. Reserve Fund for depreciation amounted to £120.

During the year I transact the following business: I sell for Cash Stock, £3,250; Wheat, £2,075; and Horses, £114. I receive from Burrell £320 (to settle), from Jewson £100 on account, and from sundry debtors £170. I pay away £280 to Summers, £275 to Mills, and £160 to sundry creditors, to settle in all these cases. I have also paid for Feeding Stuffs £436, for Wages £1,966, and Live Stock purchased £1,805. I have sold Wheat to Jewson £330, and Live Stock to sundry persons £80. My rent was £1,200, of which £250 remains unpaid. Sundry other Trade Expenses, £295 (paid), and £42 (unpaid). Private Drawings, £200.

Before closing P. and L. I consider it prudent to add £10 to the Bad Debts Reserve Fund, and £20 to the Depreciation Fund.

On valuation I find Wheat to be worth £400, Live Stock £3,500, Feeding Stuffs £50, Buildings £1,000, and Horses, &c., £300.

Enter the above in a Ledger either with or without the help of a Journal. Then draw up Profit and Loss account and Final Balance Sheet.

LESSON X

WHAT CAPITAL CONSISTS OF

CAPITAL (as you have already learnt) is the difference between Assets and Liabilities. If therefore we want to know what Capital consists of, it is plain that we must have before us an exact and true statement of Assets and Liabilities, that is to say, a Balance Sheet.

You may perhaps suppose that if we know the *amount* of Capital it is of comparatively small consequence how that amount is made up. This is not so. It is a matter of great importance to be able to tell exactly *what Capital consists of.*

We shall understand why, if we begin by asking, What are Liabilities, and how are they extinguished or cancelled?

Liabilities (*in the general meaning of the word*) are obligations or duties which a man is *bound* to fulfil. These duties or obligations may be of various kinds. Thus if I attend a dinner party, I am liable (by social bonds) to be called on to conduct a lady to the dining-room. If a member of parliament gives his vote in the House of Commons, he is liable (by political bonds) to be called on to explain his conduct to his constituents, and if a merchant uses another merchant's trade mark, he is liable (by legal bonds) to be called on to apologise and to make suitable reparation.

But in the technical language of Bookkeeping there is *only*

one kind of liability, namely, the liability to be called on to pay a sum of money.

Notice that it is not the sum of money itself that is the "liability," but the duty or obligation of paying it.

When the money is paid, the debt is extinguished, the "liability" is discharged. Liabilities ought to be discharged when they fall due. What happens when a business is not able to discharge its liabilities as they fall due? It loses its reputation, which is its very life blood, and presently, unless some speedy remedy is found, it becomes "insolvent," and loses its existence.

A reputation for meeting liabilities as they become due is as necessary to the healthy life of a business, as breathing is to the life of an individual.

Every business man has constantly to look ahead with respect to this vital question—the punctual discharge of liabilities.

Now I want you to remember that the liabilities of a Balance Sheet (the only liabilities we are at present concerned with) can only be discharged in one way, viz. by *the payment of money*.

It is of no use for you to say to your creditor: I know that I owe you £100, and I know that the debt is now due. Here is a very good horse which I am sure is worth quite £100. Take that and be content. Your creditor will say, I do not want a horse, I demand Cash, and the law will uphold your creditor's demand.

If then you have no other means of meeting this debt, you must sell this horse (even if you have to take less than £100 for it), and with the money you receive you must pay your debt or part of it. You would possibly, however, find that you had some other "Asset," more easily sold than a horse, or that could be sold at less sacrifice.

Suppose, for instance, that although you had scarcely any Cash you had a "bill" for £120. You could take this bill to

the bankers, and if accepted by a man of good financial "*reputation*," you could easily "*realise*" on it enough Cash to discharge your liability.

Now when, for the purpose of "*realisation*," you made choice of this bill rather than your horse, you were in reality ranking your assets in order of availability for the discharge of your liabilities.

This is the principle upon which assets should always be arranged in a Balance Sheet. Cash (in hand and Bank) comes *first*, and other assets take rank according to the readiness with which they can be turned into Cash if desired.

An example will illustrate what I mean. Look at the following imaginary Balance Sheet where I have arranged the Assets in order of their *nominal* value.

BALANCE SHEET.

LIABILITIES.	January 1, 1895.	ASSETS.
Creditors £5000	Premises	£3000
Capital £3600	Stock	2000
	Investments	1200
	Debtors	1000
	Acceptances	800
	Goodwill	500
	Cash	100
£8600		£8600

The Proprietor, Mr. John Allen, has been for some time feeling very uncomfortable, though he does not exactly know why. He wishes to consult you, and see if you can assist him.

What can you say to him? Will you say, "Your Assets, Mr. Allen, exceed your Liabilities by £3,600. Your affairs

are therefore in a very satisfactory position. Do not disturb yourself. There is no cause for anxiety whatever?"

He will say to you, "But the wearer knows best where the shoe pinches, and I *know* things are not right, for I am being daily harassed for want of ready Cash."

Mr. Allen is right. There *is* something the matter in spite of a substantial excess of Assets over Liabilities. *What is it?* Where is the weakness, and how shall we learn to put our finger on the exact spot? We shall learn this by remembering what has been already pointed out, that "*Liabilities*" are obligations to pay Cash.

Now see what follows from this. Mr. Allen is bound to pay other people £5,000 Cash.
He has Cash in hand 100

Deficit! £4,900

That is, he needs £4,900 more Cash than he has got, to enable him to pay all his debts.

Let us now look at his Liabilities, and try to discriminate between what is due at once, and what perhaps can wait. After a searching examination of Mr. Allen's books, with Mr. Allen's personal assistance, we arrive at the following classification:—

(1) Debts overdue and pressing for immediate payment, including **Preferential Creditors** . . . . . £500.

Preferential Creditors are those that can demand full satisfaction of their claims out of the Assets of the Debtor's Estate, before any payments are made to the other Creditors. They include liabilities for rent, rates, taxes, salaries, &c.

(2) Debts due now or within a few weeks. . . £500.

(3) Will fall due in from three to six months . £1,500.

(4) Loan from the Bank *on security of Business Premises* . . . . . £2,500.

From the above list it appears that Nos. (1) and (2) are in need of instant and serious attention, but the rest can wait for awhile. This will give us a little breathing space.

Now we come to the important question of the analysis of the Assets. The problem before us is this. *Which of these Assets can Mr. Allen most easily and economically turn into Cash, to meet his immediate liabilities?*

(1) CASH itself needs no transformation. It is the simplest and most satisfactory of all forms of property.

(2) BILLS, if they are sound, come next. If the acceptors' names are well known in the commercial world, as not being at all likely to dishonour their bills, these can be readily turned into Cash by "discounting" them at the Bank.

(3) INVESTMENTS would probably take the third place. When these are Government Stocks or shares in some well-known company, they can be sold at once by a broker at the current market price of the day. We hope Mr. Allen's investments are all of this character, and should certainly advise him to realise at once in order to place himself in a more easy position, or he will hear some unpleasant whisperings as to his solvency.

(4) Ordinary DEBTS RECEIVABLE "on open account" are frequently called "Book Debts." These take a lower place than those that are "covered" by acceptance. If you ask a man to pay his debts before they are due or before the *customary time* for payment, he will perhaps pay you, and at the same time ask you to "close his account," which means that he intends henceforth to do business elsewhere. Thus you will soon lose your connection, and the profits of your business will decline. Hence this asset is a difficult one to deal with, and Mr. Allen must be careful how he tries to "realise" this particular branch of his property.

(5) Stock-in-Trade is almost equally difficult to turn into immediate Cash without a loss. Forced sales are usually unprofitable and sometimes create suspicion as to the solidity of the business. Mr. Allen will, of course, lose no opportunity of effecting sales in the ordinary course of business, but he would be very foolish to send his Merchandise to the Auction rooms, if he could meet his liabilities in any other way.

(6) Freehold Premises (£3,000). This looks a large item, but so far as Mr. Allen's ordinary liabilities are concerned, it is a useless asset. It is specially pledged to meet one special liability, and is therefore unavailable for any other purpose.

(7) Goodwill. This also is an item which is quite useless for the purpose of meeting ordinary liabilities. Goodwill can only be turned into Cash when the business is sold or a partner is admitted. Perhaps Mr. Allen actually paid this amount (or even more) for goodwill, when he bought the business, and it may be worth quite £500 now, if the business were sold, but as it is useless *so far as the main function of Assets is concerned*, I should strongly advise Mr. Allen to "write it off," and pass it to P. and L. either in one lump sum or by instalments.

Now let us *rearrange* our friend's statement for him :—

BALANCE SHEET.

Liabilities.		Assets.	
Debts now due ...	£1000	Cash	£ 100
Due 3 to 6 months .	£1500	B. R.	800
		Investments ...	1200
Current Liabilities ...	£2500	Total Liquid Assets ...	£2100
Loan Account	2500	Debtors on open Account .	1000
Total Liabilities	5000	Stock-in-Trade	2000
Capital	3600	Premises (mortgaged) ...	3000
		Goodwill (!)	500
	£8600		£8600

Both Liabilities and Assets must be analysed and marshalled in order of rank as in the above example, if the Balance Sheet is to be a really useful statement.

SPURIOUS ASSETS.

In further consideration of the question, **What does Capital consist of?** I want you to notice that you will often meet with items on the Assets side of a Balance Sheet which have no business there, and you will sometimes meet with amounts on the Liabilities side that are not really Liabilities in the usual sense of the word.

(1) PARTNERS' DRAWING ACCOUNTS.

Suppose a partner in a business, A. B., has both a Capital account and a Drawing account. His Capital account shows a balance of £2,000 in his favour, that is, the business owes him £2,000. His Drawing account shows a debit balance of £1,500, that is, he owes the business £1,500. The Balance Sheet of the firm, perhaps, shows the former amount as a Liability and the latter as an Asset.

BALANCE SHEET.

LIABILITIES			ASSETS	
Sundries		£2500	Sundries	£5000
Capital as under—			A.B.	1500
A.B. ... £2000				
C.D. ... 2000		£4000		
		£6500		£6500

The item £1,500 is a "spurious asset." If A. B. has private means (apart from the business) he ought at once to pay in this amount to the general fund of Cash belonging to

the firm. If he has *no* private means, the Asset "A. B. £1,500" is utterly worthless and misleading.

The true amount of Capital is only £2,500, and would be more accurately shown as under:—

BALANCE SHEET.

LIABILITIES.			ASSETS.	
Sundries	...	£2500	Sundries	£5000
Capital as under—				
A. B. ... £ 500	...	2500		
C. D. ... 2000				
		£5000		£5000

(2) PRELIMINARY EXPENSES.

This item (so frequently seen on the Assets side of a Balance Sheet) is very much akin to the item "*Goodwill*" which we have already spoken of. It is absolutely useless for the purpose of meeting ordinary liabilities. The only logical justification for its appearance as an Asset is, that the expenses which it represents have in some undefined way actually increased the value of the business *as a whole*, but as it is not possible to name any particular part of the property that has specifically benefited thereby, the enhanced value is vaguely registered under the title "*Preliminary Expenses*." This point will be referred to again in the Lesson on Company Bookkeeping.

(3) PROFIT AND LOSS.

P. and L. is a "Proprietary" account, and no Proprietary account should ever show a balance as an Asset. The reason for this will be very plain if you have read and understood Part I. Assets are parts of a man's *Property*, and can only be truly represented by "Property" accounts. If *P. and L.* or any other "*Proprietary*" account figures as an Asset, it simply

means that the Proprietor owes that amount to the business. As a *reductio ad absurdum* I could easily, if this principle were admitted, make out that I had a Capital of £1,000 in a business, when I had only £1.

Capital	£1000	Cash	£ 1
		Financial Agency	99
		Trading Company	500
		Thornton and Smith ...	400
	£1000		£1000

If the high sounding titles Financial Agency, Trading Co., Thornton and Smith all in reality represent *disguised* Proprietary accounts with no actual assets at their back, then the actual Capital of the above Balance Sheet is only £1.

SPURIOUS LIABILITIES.

A man who wishes (for any reason) to make it appear that he is *worse* off than he really is, can easily load up his Balance Sheet with Spurious Liabilities.

(1) **Profit and Loss.** It is very puzzling to beginners in bookkeeping to come across this item on the Liabilities side of a Balance Sheet. It is really a portion of "Capital," and consists of the balance of net profit that has not yet been passed to the credit of the proprietors of the business. It may therefore be regarded as a kind of "Suspense" account (see Lesson IX.). It is not in any sense a Liability.

(2) **Reserve Accounts.** These have already been examined in Lesson I. where we saw that a Bad Debts Reserve Fund, or any Fund created to meet a known future demand or to provide for a real present depreciation of any kind of property, ought to be exhibited in a Balance Sheet as a diminution in the value of some particular Asset, but that

a *general* reserve account is in reality a branch of Capital account.

Exercise V. is an amusing question bearing on this subject which I have taken from a paper, set by Mr. Gerard Van de Linde, F.C.A., for an examination of Bankers' clerks held in March 1891.

Exercise IV.

Arrange the following Assets and Liabilities in the form of a Balance Sheet, grouping the Assets and ranking them in order of their importance. Point out any items which in your opinion may give rise to difficulty, and suggest some practical means of providing for this difficulty.

Jan. 1, 1895. Cash in hand £50, Cash in Bank (Current account) £75, Bank Advance account (on security of Machinery), £500, Due to Landlord for Rent £100, Due to A.B. for Machine £120, Due to Sundry Creditors £480, Value of Stock £2,700, Bills Payable No. 1 (Jan. 4), £750, Bills Payable No. 2 (Mar. 4) £250, Bills Receivable No. 1 (Feb. 4) £600, Bills Receivable No. 2 (April 4) £460, Debtors on Open account (Book Value) £1800 (Actual Value estimated at £1600), Machinery valued at £1100, Goodwill £500, Horses and Wagons £250, £500 $2\frac{3}{4}$ per Cent. Consols valued at par, £1000 Shares in Utopian Gold Mining Company, *cost* £875. The above mining shares have been placed in broker's hands for realisation, but he reports "No buyers."

Exercise V.

On April 1, 1891, X. Y. Z. purposes asking his bankers, Messrs. L. S. D. and Co. for accommodation, basing his application on the following Balance Sheet, which in the unaccountable absence of his cashier he has himself unaided drawn up from his Books (see page 161). As representing Messrs. L. S. D. :—

(*a*) Can you recommend them to advance £4,000 on the above figures, or should they in your opinion at once transfer the Balance of the Bank Current account to the Advance account and in reduction thereof? State reasons for your answer.

(*b*) Do you consider X. Y. Z. to be solvent or not on his own showing? Give reasons for your answer.

BALANCE SHEET.

April 1, 1891.

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Messrs. L. S. D.—Advance Account ...	1000	0	0	Cash—			
				At Bank (Messrs. L.S.D.) £ 450 2 6			
Creditors—				Office Cash 2690 2 10			
On Bills Payable ... £6690 7 2					3140	5	4
On Open Account ... 6990 9 9				X. Y. Z. Drawing Account	1675	9	6
On Loans Account ... 7096 8 4	20,777	5	3	Goodwill	1500	0	0
				Stock (say)	2000	0	0
(Some pressing for immediate payment and threatening to take strong measures.)							
				Debtors—			
Reserve Account—Balance as per Books	269	11	11	On Bills Receivable ... £3670 2 6			
Capital Account	2000	0	0	On Open Account ... 4720 6 2			
					8390	8	8
				(Of these the Cashier before his departure considered at least £6000 to be good.)			
				Investments...	5690	7	2
				(There is at present no actual market for these except at mere nominal prices. A material rise is expected in them shortly.)			
				Profit and Loss Account Balance at date .	1650	6	6
	£24,046	17	2		£24,046	17	2

LESSON XI

CAPITAL IN CASH

We have learnt in Lesson X. that **Assets** are of various kinds, and that of all descriptions of Assets, **Money** is the most useful. We shall now have to ask, What are the various forms which Money may take, and which of these forms is the most convenient and valuable?

The Bookkeeping term for Money is Cash, and under this term we include both Cash in hand and Cash at Bank. The term "Cash in hand" includes not only Gold, Silver, and Copper coins, but also **Bank Notes** and **Cheques.**

Which now of these various forms of Cash is the most useful and convenient? Let us examine them one at a time.

(1) **Gold.** This is certainly a most useful form of Cash. What is there to be said against it either on the score of convenience or safety? These things: (i.) It is heavy. If you have to pay away several thousands of pounds you would find your purse too weighty for ordinary purposes. (ii.) It takes a long time to count. (iii.) If stolen it is difficult to trace and recover, for the thieves can easily dispose of it, and even if found in their possession, you cannot swear to the identical coins.

(2) Silver and Copper coins have all the inconveniences of Gold (in a greater degree) besides some special inconveniences of their own. If you owe any one money, no matter how much, and *offer*, or *tender*, the amount to him in Gold coins of the realm, he is legally bound to accept these in discharge of the debt. This is what is meant by saying that Gold is a "*legal tender*."

But Silver is only a "legal tender" up to the amount of forty shillings, and Copper only up to the value of *twelve pence*. So that although Silver or Copper are very convenient for some purposes (such as payment of wages), they are by no means the most useful form in which to have Cash.

(3) **Notes.** A Bank Note is a Promise to pay a certain sum of Money on demand. The Bankers who issue it are legally bound to redeem their promise by paying *Gold* to any person who presents it for payment at any time during their usual hours of business.

Bank Notes are usually divided into two classes: (1) Bank of England Notes, commonly called specifically "*Bank* Notes," and (2) notes on other bankers, commonly called "*Country* Notes."

The convenience of Bank Notes is very great. They are easily carried, easily counted, and for the most part readily accepted in payment of debts or in exchange for any kind of merchandise.

But what about *their safety?* With respect to Country notes their safety is in most cases unquestioned, and with respect to Bank of England Notes it is sufficient for the present to say that they are known and gladly accepted all over the civilized world. (See Appendix to this lesson.)

(4) **Cheques.** I may have in my possession a number of *cheques* signed by other people. These are neither a particularly safe, nor at all a convenient form in which to hold Cash. They are not particularly safe, for the drawer may possibly have

overdrawn his account at the Bank, and in that case the cheque will be "*returned*" on "*presentation*," marked "*refer to drawer*." They are not at all convenient, for I cannot give them in payment of my debts, nor can I easily use them in other ways. My best plan (and it is the plan adopted by all good houses of business) is to pay these cheques IN to my own account at the Bank the very day on which I receive them. This brings us naturally to our last item.

(5) **Cash at Bank.** What is the meaning of "Cash in Bank"? Is it *safe?* Is it a *convenient* form of Cash?

I pay in £50 to my account at a certain bank. Let us say the London and County Bank, Sevenoaks. What becomes of it? They say they will kindly "take care of it" for me, and that I can "draw it out" when I wish. How do they take care of it? By locking it up in a strong iron chest? Certainly not. Perhaps not more than one tenth of all the money that is placed in banks is locked up. No, the way they take care of my money is by lending it to some one else! But have they a right to do this? Certainly they have. When I place money in a Bank, I simply *lend it to the Bank*, and they have the most absolute right to use it in any way they think proper. "*Cash in Bank*" means, then, Cash "lent to the Bank."

But is it safe thus to lend my money, not knowing what is done with it, and having no control over it if I did know? That depends on three things:—

(i.) The personal character of the bankers.

(ii.) Their business reputation.

(iii.) Their private resources.

In the vast majority of cases we need have no fear on either of these three points. In the case of Joint Stock Banking Companies, the names of the Directors, the published Balance Sheets, and the amount of the Capital subscribed combine to

assure us that we may put our money in the bank with a comfortable sense of its security. We may be quite sure it is a great deal safer to do this than it would be to dig a hole in our back garden and bury it there.

Now consider the **convenience**. The convenience of being able to draw my money out of a bank at any moment, in any amount I please, simply by writing a few words on a slip of paper, is truly wonderful.

It saves time in counting the coins and procuring the exact change wherewith to pay each of my debtors. It saves the trouble of carrying the coins to my debtors' houses. It saves the expense of transmitting money to a distant town, and it saves the risk of loss during transmission.

This method of keeping one's money in a bank, and paying one's debts by drawing a cheque, is not only a great personal convenience, it is a great economic advantage to the nation. If payments were made by coin only, an enormous increase of gold and silver coins would be needed, and this would entail a very considerable annual loss for interest.

We arrive therefore at the conclusion, that there is no more useful form in which we can have our Assets than Cash, and no more useful form in which we can have our Cash than that of a current account in a bank of established reputation.

Having thus answered the important question *What does Cash consist of?* we proceed to inquire **How to keep an account of the INcomings and OUTgoings of Cash.**

"Cash" is so much the most important part of "Capital" (Lesson X.) that its Incomings and Outgoings are recorded in a book kept for that special purpose, and called the "Cash Book."

Is the Cash Book to be looked upon as a long Ledger Account kept for convenience in a separate book, or as a branch of the Journal? I think it is far better for students to regard it as a branch of the Journal. It is not at all necessary, and in many businesses it is not at all desirable, that the Cash *Book* should be balanced. If the totals are posted into the Cash Account in the Proprietor's Private Ledger, this will enable the balance to be agreed with Cash in hand, and will also afford a convenient abstract of total receipts and payments each day.

There is a great and puzzling variety of rulings for the Cash Book, some of which are apparently very complicated. In order to understand the matter and be in a position to make a judicious choice or perhaps even to invent a new style of Cash Book for ourselves, we must first understand the **principle** that underlies every variety of Cash Book that ever was made.

It is this :—*Any transactions that have one or more Debits* (*or Credits*) *in common may be so arranged that the sum total of these Debits* (*or Credits*) *can be conveniently collected and posted into the Ledger in one amount.*

But, you will say, this is simply the principle of classified "Journalising." Precisely. That is the very conclusion I wished you to arrive at, and I shall now try to show you by successive examples that every type of Cash Book is simply a more or less highly classified "Journal."

Example I.

CASH BOOK. Tuesday, January 1, 1895. (*Dr.* side only.)

Ledger Folio.	Name and Particulars.	Amounts Received.
		£ s. d.
	J. Jones, To Settle	30 0 0
	Goods, Cash Sales	10 0 0
	J. Smith, on Account	25 0 0
	Cash, *Dr.* To Sundry Receipts	65 0 0

Here there are three individual credits having the *common* debit "Cash," and in Journal form this would have been :—

	£ s. d.	£ s. d.
Cash, *Dr.* ...	65 0 0	
To Jones ...		30 0 0
,, Goods ...		10 0 0
,, Smith ...		25 0 0

Example II.

CASH BOOK. Tuesday, January 1, 1895. (*Dr.* side only.)

Ledger Folio.	Name and Particulars.		Cash.			Bank.		
			£	*s.*	*d.*	£	*s.*	*d.*
	J. Jones	... ...	10	0	0	50	0	0
	W. Brown ...	... ...	15	0	0			
	R. Robinson ...	... ...				30	0	0
	E. West	per F. Smith ...				100	0	0
	Goods	Cash Sales ...	40	0	0			
	Cash, Dr. To Sundry Receipts ...		£65	0	0			
	Bank, Dr. To ditto ...					180	0	0

It is plain that the above is only another form of Journal, and that the transactions might have been Journalised thus :—

JOURNAL.

	£	*s.*	*d.*	£	*s.*	*d.*
Cash, *Dr.*	65	0	0			
Bank, *Dr.*	180	0	0			
To J. Jones				60	0	0
,, W. Brown				15	0	0
,, R. Robinson				30	0	0
,, E. West				100	0	0
,, Goods				40	0	0

Compare the two forms just given, and endeavour to form a sound opinion of your own as to the practical advantages of one over the other. Notice also the advantage of the second column in the body of the Cash Book for "particulars," especially in such transactions as the one "E. West," where the amount, though paid in *by* F. Smith, is to be entered *to the credit* of E. West.

Example III.

CASH BOOK. Tuesday, January 1, 1895.

Form used when Cash Book is not Balanced, but Totals Posted into Ledger. (*Dr.* side only.)

Ledger Folio.	Name.	Particulars.	Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
	J. Jones... ...	... ...	1	10	0	10	0	0	50	0	0
	W. Brown ...	... ...	0	15	0	15	0	0			
	R. Robinson ...	... ...	1	0	0				30	0	0
	E. West... ...	per F. Smith							100	0	0
	Goods	Cash Sales ...				40	0	0			
	P. and L., Dr. To Discounts		3	5	0						
	Cash, Dr. To Receipts ...					65	0	0			
	Bank, Dr. To ditto ...								180	0	0

Example IV.

Dr. *Form used when the*

Ledger Folio.	Name and Particulars.	Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
Jan.	Cash in Hand				45	0	0	825	0	0
	J. Jones	1	10	0	10	0	0	50	0	0
	W. Brown	0	15	0	15	0	0			
	R. Robinson	1	0	0				30	0	0
	E. West ... ... per F. Smith							100	0	0
	Goods ... ... Cash Sales ...				40	0	0			
	P. and L., Dr. To Discounts	3	5	0	110	0	0	1,005	0	0

ANALYSIS.

	£	s.	d.	£	s.	d.
Cash Account, *Dr.*	65	0	0			
Bank ,, ,, ...	180	0	0			
To Sundry Credits (posted) *Cr.*				245	0	0

Example III. is plainly seen to be a kind of Tabular Journal, the amounts taken vertically being *debits* to the accounts named at the head of each column, and the same amounts taken horizontally being *credits* to the accounts named on each successive line of the book. (See Lesson IX., p. 144.)

In Example IV. the resemblance to a Journal is disguised, but in a Cash Book of this kind it is usual to make an *analysis* at the foot of each page, and to post the amounts from this analysis into Cash *Account* in the Ledger. Then the essence of the thing stands revealed. It is our old friend the Journal after all.

CASH BOOK. Tuesday, January 1, 1895.

Cash Book is balanced. *Cr.*

Ledger Folio.	Name and Particulars.	Discount.	Cash.	Bank.
		£ s. d.	£ s. d.	£ s. d.
	H. Isaacs	2 0 0		33 0 0
	Trade Expenses Wages ...		10 0 0	
	,, Rent			25 0 0
	W. Ellman, P. A.	0 5 6	16 10 0	
	Balance, Cash in Hand carried to new folio ...		83 10 0	947 0 0
	P. and L., Cr. by Discounts	2 5 6	110 0 0	1,005 0 0

ANALYSIS.

	£ s. d.	£ s. d.
Sundry Debits (posted) *Dr.* ...	84 10 0	
To Cash *Cr.*		26 10 0
To Bank *Cr.*		58 0 0

Example V.

Cash Book with "Detail" Column.

Dr. CASH.

Date.	Folio.	Name of Account.	Particulars.	Cash Sales.			Total.		
				£	s.	d.	£	s.	d.
1895									
Jan. 2		Jones ...					40	0	0
3		Brown ...					26	0	0
4		Robinson ...					60	0	0
5		Goods ...	Cash Sales ...	17	0	0			
6		Smith ...					70	0	0
7		Black ...					10	0	0
8		Goods ...	Cash Sales ...	81	0	0			
9		Jones					5	0	0
10		White ...					12	0	0
12		Goods ...	Cash Sales ...	15	0	0			
15		,, ...	,, ,, ...	26	0	0			
		,, ...	Fortnightly Sales...		—		139	0	0
		Cash *Dr.* ...	To Receipts ...				362	0	0

Here we have eleven entries having a common *debit* (Cash), and four of these eleven have also a common *credit* (Goods). We therefore introduce a Detail column. (See page 143.) This is evidently another form of classified Journal, and is the same thing in effect as saying:—

Cash Dr.	362	
To Goods, Cr. . . .		139
To Sundry Persons, Cr.		223

At the end of any given period that may seem suitable, the total of the Detail column is carried out into the outer column. The Cash Book can then be balanced, or the outer columns can be cast up and posted into the Cash Account in the Private Ledger. The Student will notice the advantage of the Detail column, not only in presenting to the eye all transactions of a similar kind in a distinct manner, but also in enabling them to be conveniently collected, added up, and posted *in one amount* into the Ledger.

VI. TWO KINDS OF CASH.

We shall now notice some of the various plans adopted by bookkeepers to meet the difficulty of having to deal with two kinds of Cash, viz. Cash in Hand and Cash at Bank, and for this purpose we shall enter the following transactions in five different kinds of Cash Books. The differences between each of these methods must be accurately noted, and the comparative advantages and disadvantages of each carefully weighed.

TRANSACTIONS.

1895.		£	s.	d.
Jan. 1.	Cash in Hand	75	0	0
,, ,,	,, Bank	700	0	0
,, 2.	Received of J. Smith	50	0	0
,, 3.	Paid J. Brown	25	0	0
,, 4.	,, J. Robinson, by Cheque	60	0	0
,, 5.	Sundry Trade Expenses	1	2	6
,, 6.	Sundry Cash Sales	13	10	0
,, 7.	J. Jackson, paid into my Account at the Bank	85	0	0
,, 8.	Sundry Cash Sales	12	5	6
,, 9.	Sundry Trade Expenses		15	0
,, 10.	Paid into Bank	50	0	0
,, 11.	Drew Cheque for Private Expenses ...	20	0	0
,, 12.	Received of J. Jones	16	0	0
,, 13.	Drew from Bank for Current Expenses	100	0	0
,, 14.	Goods bought for Cash	90	0	0
,, 15.	Sold Goods for Cash	10	11	4
,, 16.	Paid Johnson by Cheque	30	0	0
,, 17.	,, Wilson ,, ...	40	0	0
,, 18.	,, for Trade Expenses	6	17	0

Example VI. (*a*). Cash and Bank intermingled in one column (pages 172, 173).

Example VI. (*b*). With two columns, the main one for Cash, subsidiary or detail column for Bank (pp. 174, 175).

Example VI. (*c*). Bank and Cash separate but united in the total (pp. 176, 177).

Example VI. (*d*). Separate columns but posted into United Ledger account (pp. 178, 179).

Example VI. (*e*). All Cash paid and received through the Bank (pp. 184, 185).

Dr. **CASH**

Example VI. (a). Cash

Date.	Name.	Particulars.	Folio of Ledger.	Cash Received.		
1895.				£	s.	d.
Jan. 1	To Balance ...	... ...		75	0	0
2	,, J. Smith ...	... ...		50	0	0
4	,, L. and C. Bank	Robinson ...		60	0	0
6	,, Goods ...	Cash Sales ...		13	10	0
7	,, J. Jackson ...	... ...		85	0	0
8	,, Goods ...	Cash Sales ...		12	5	6
11	,, L. and C. Bank	Self		20	0	0
12	,, J. Jones ...	... ...		16	0	0
13	,, L. and C. Bank	Drawn out ...		100	0	0
15	,, Goods ...	Cash Sales ...		10	11	4
16	,, L. and C. Bank	Johnson		30	0	0
17	,, ,,	Wilson		40	0	0
				512	6	10
Jan. 19	To **Balance**			103	12	4

The entries in the above Cash Book that refer to "Bank" must of course

Dr. LONDON AND

1895.				£	s.	d.
Jan. 1	To Balance			700	0	0
7	,, Jackson			85	0	0
10	,, Cash			50	0	0
				835	0	0

ADVANTAGES.

The only advantage of the above method is the single column in the Cash Book, which I suppose might under some circumstances save the cashier a little trouble when entering cash transactions.

BOOK *Cr.*

Book with only One Column

Date.	Name.	Particulars.	Folio of Ledger.	Cash Paid. £	s.	d.
1895.						
Jan. 3	By J. Brown ...	... ...		25	0	0
4	,, J. Robinson ...	... ...		60	0	0
5	,, Trade Expenses	Wages		1	2	6
7	,, L. and C. Bank	Jackson		85	0	0
9	,, Trade Expenses	Stationery ...		0	15	0
10	,, L. and C. Bank	Paid in		50	0	0
11	,, Capital Account	Private Expenses		20	0	0
14	,, Goods ...	Cash Purchases...		90	0	0
16	,, J. Johnson ...	... ...		30	0	0
17	,, J. Wilson ...	... ...		40	0	0
18	,, Trade Expenses	Sundries... ...		6	17	0
..	,, **Balance** ...	... ...		103	12	4
				512	6	10

be posted to Bank Account in the Ledger, thus :—

COUNTY BANK. *Cr.*

1895.				£	s.	d.
Jan. 4	By Robinson			60	0	0
11	,, Self			20	0	0
13	,, Cash			100	0	0
16	,, Johnson			30	0	0
17	,, Wilson			40	0	0
18	,, **Balance**			585	0	0
				835	0	0

DISADVANTAGES.

The disadvantages are obvious: (1) It mixes Cash and Bank transactions together. (2) It does not show total of Cash in Hand and at Bank separately. (3) It requires a double Cash Book entry of every Bank transaction. (See for example the transaction on Jan. 4.)

Dr. **CASH**

Example VI. (b). Cash Book

Date.	Name.	Particulars.	Folio of Ledger	Received from Bank. £	s.	d.	Total Received. £	s.	d.
1895.									
Jan. 1	To Balance ...	... ...		...	...	...	75	0	0
2	,, J. Smith ...	... ...		...	...	...	50	0	0
4	,, L. & C. Bank	Robinson ...		60	0	0	...	...	...
6	,, Goods ...	Cash Sales ...		...	...	...	13	10	0
7	,, J. Jackson ...	... ...		...	...	...	85	0	0
8	,, Goods ...	Cash Sales ...		...	...	...	12	5	6
11	,, L. & C. Bank	Self		20	0	0	...	...	...
12	,, J. Jones ...	... ...		...	...	...	16	0	0
13	,, L. & C. Bank	Drawn out ...		100	0	0	...	...	...
15	,, Goods ...	Cash Sales ...		...	...	...	10	11	4
16	,, L. & C. Bank	Johnson ...		30	0	0	...	...	...
17	,, ,,	Wilson ...		40	0	0	...	...	...
18	,, ,,	Total Drawings					250	0	0
							512	6	10
Jan. 19	To Balance—Cash in hand ...			...	...	...	103	12	4

Dr. LONDON AND

			£	s.	d.
1895.					
Jan. 1	To Balance in Bank at this date		700	0	0
18	,, Deposits as per Cash Book		135	0	0
			835	0	0
Jan. 18	To Balance brought forward		585	0	0

ADVANTAGES.

This method is an improvement on the preceding one, as it shows the Bank transactions distinct from ordinary Cash transactions, and it diminishes the labour of the posting clerk, the postings of the Bank transactions to Bank account being reduced to the simple form shown above.

BOOK *Cr.*

with "Detail Column" for Bank

Date.	Name.	Particulars.	Folio of Ledger.	Paid to Bank.			Total Paid.		
1895.				£	s.	d.	£	s.	d.
Jan. 3	By J. Brown ...	... ...		...	...	...	25	0	0
4	,, J. Robinson	... ...		...	...	...	60	0	0
5	,, Trade Exps.	Wages ...		...	...	...	1	2	6
7	,, L. & C. Bank	Jackson ...		85	0	0	...	...	...
9	,, Trade Exps.	Stationery ...		...	...	...	0	15	0
10	,, L. & C. Bank	Paid in ...		50	0	0	...	...	...
11	,, Capital Acct.	Private Exs. ...		...	...	...	20	0	0
14	,, Goods ...	Cash Purchases		...	...	...	90	0	0
16	,, J. Johnson ...	... ...		...	...	...	30	0	0
17	,, J. Wilson ...	... ...		...	...	...	40	0	0
18	,, Trade Exps.	Sundries ...		...	...	...	6	17	0
,,	,, L. & C. Bank	Total Deposits					135	0	0
,,	,, **Balance** ...	... ...		...	...	...	103	12	4
							512	6	10

COUNTY BANK. *Cr.*

1895.			£	s.	d.
Jan. 18	By Drawings as per Cash Book		250	0	0
,,	,, Balance in Bank at this date		585	0	0
			835	0	0

DISADVANTAGES.

Its disadvantages are that it does not show the total Cash balance (in hand and at Bank), and that it still requires, like Example 6 (*a*), a *double* Cash Book entry of each Bank transaction. Moreover the payments IN to Bank appear on the *Cr.* side and the drawings OUT on the *Dr.* side, which is confusing.

Dr. **CASH**

Example VI. (c). Bank and Cash

Date.	Name.	Particulars.	Folio of Ledger.	Bank—IN. £	Bank—IN. s.	Bank—IN. d.	Cash—IN. £	Cash—IN. s.	Cash—IN. d.
1895.									
Jan. 1	To Balance ...	(in hand and Bank)		...	...	...	775	0	0
2	,, J. Smith ...	... ...		...	...	...	50	0	0
6	,, Goods ...	Cash Sales ...		...	...	...	13	10	0
7	,, J. Jackson	... ...		85	0	0	...	...	...
8	,, Goods ...	Cash Sales ...		...	...	...	12	5	6
12	,, J. Jones ...	... ...		...	...	...	16	0	0
15	,, Goods ...	Cash Sales ...		...	...	...	10	11	4
18	,, (Bank) ...	... ...		...	...	...	85	0	0
							962	6	10
Jan. 19	To **Balance**...	... ...		...	...	...	688	12	4

ADVANTAGES.

The above method is better than either of the Examples A or B, and is in some respects the simplest of all, for it requires no posting of the Bank entries into the Bank account in the Ledger, and it shows the total of Cash and Bank in one amount. Moreover, it shows Bank receipts on the *Dr.* side and payments on the *Cr.* side; it only requires a single Cash Book entry of each Bank transaction; and it needs no entry at all of "cross transactions" between Cash and Bank, such as those on the 10th and 13th, which it will be seen do not appear above.

BOOK

Cr.

separately, but united in the Total

Date.	Name.	Particulars.	Folio of Ledger.	Bank—OUT. £	s.	d.	Cash—OUT. £	s.	d.
1895.									
Jan. 3	By J. Brown ...	... ...		...	...	...	25	0	0
4	,, J. Robinson	... ...		60	0	0	...	...	...
5	,, Trade Exs.	Wages		...	...	...	1	2	6
9	,, ,,	Stationery ...		...	...	...		15	0
11	,, Capital ...	Private Drawing		20	0	0	...	...	...
14	,, Goods ...	Cash Purchases		...	...	...	90	0	0
16	,, J. Johnson	... ...		30	0	0	...	...	...
17	,, J. Wilson...	... ...		40	0	0	...	...	...
18	,, Trade Exs.	Sundries ...		...	...	...	6	17	0
,,	,, (Bank) ...	... ...		...	...	...	150	0	0
,,	,, **Balance** ...	... ...		...	...	...	688	12	4
							962	6	10

Disadvantages.

The one fatal objection to this scheme is that it does *not* distinguish between the balances of Cash and Bank. It therefore puts an obstacle in the way of easily and frequently checking the accuracy of each of these balances, and might thus open the door to serious frauds. In practice it would no doubt be supplemented by an analysis of the balance at foot thus

Cash in hand	£103	12	4
,, ,, Bank	585	0	0
Total ...	£688	12	4

Dr. **CASH**

Example VI. (d). Bank and Cash in separate Columns,

Date.	Name.	Particulars.	Folio of Ledger.	Bank—IN. £	s.	d.	Cash—IN. £	s.	d.
1895.									
Jan. 2	To J. Smith ...	... ...		...	...	...	50	0	0
6	,, Goods ...	Cash Sales ...		...	...	...	13	10	0
7	,, J. Jackson	... ...		85	0	0	...	...	...
8	,, Goods ...	Cash Sales ...		...	...	...	12	5	6
10	,, Paid into Bk.	... ...		50	0	0	...	...	...
12	,, J. Jones ...	... ...		...	...	...	16	0	0
13	,, Drawn out	... ...		...	...	...	100	0	0
15	,, Goods ...	Cash Sales ...		...	...	...	10	11	4
	Cash Account	**Dr. To Sundries**	P.L. 14	135	0	0	202	6	10

Dr. CASH

		Bank. £	s.	d.	Office. £	s.	d.	Total. £	s.	d.
1895.										
Jan. 1	To Balance	700	0	0	75	0	0	775	0	0
18	,, Sundry Receipts ...	135	0	0	202	6	10	337	6	10
		835	0	0	277	6	10	1,112	6	10
19	To Balance	585	0	0	103	12	4	688	12	4

ADVANTAGES.

The method exhibited on this page has many advantages. (1) It shows the Cash and Bank transactions separately. (2) It does not need balancing. (3) If the totals are posted into Cash *Account* in the Ledger as above, the Bank and Cash balances are shown both separate and united. (4) It needs only a single Cash book entry of ordinary Bank transactions.

BOOK *Cr.*

but posted into a United account in the Ledger

Date.	Name of Account.	Particulars.	Folio of Ledger	Bank—OUT.			Cash—OUT.		
				£	s.	d.	£	s.	d.
Jan. 3	By J. Brown ...	... ...		...	...	...	25	0	0
4	,, J. Robinson .	... ...		60	0	0	...	...	...
5	,, Trade Charges	Wages ...		...	...	...	1	2	6
9	,, ,,	Stationery ...		...	...	...	0	15	0
10	,, Paid in ...	... ...		...	...	...	50	0	0
11	,, Capital a/c...	Drawings ...		20	0	0	...	...	...
13	,, Drawn out ...	... ...		100	0	0	...	...	...
14	,, Goods ...	Cash Purchases		...	...	...	90	0	0
16	,, J. Johnson ...	... ...		30	0	0	...	...	...
17	,, J. Wilson ...	... ...		40	0	0	...	...	...
18	,, Trade Exs....	Sundries ...		...	...	...	6	17	0
	Cash A/c Cr....	**By Sundries**	F.L. 14	250	0	0	173	14	6

ACCOUNT *Cr.*

		Bank.			Office.			Total.		
		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 18	By Sundry Payments	250	0	0	173	14	6	423	14	6
	,, Balance	585	0	0	103	12	4	688	12	4
		835	0	0	277	6	10	1,112	6	10

Disadvantages.

This method still needs a double Cash Book entry of all "cross transactions" between Cash and Bank such as those on the 10th and 13th, which we saw needed no entry at all by the method shown in Example VI. (*c*), but these entries need no posting into the Ledger.

ABOLITION OF OFFICE CASH.

We now come to the best method of all, the best because the simplest. Suppose I wake up one fine morning, and say, "I am tired of all this worry with two kinds of Cash. If I amalgamate them I get into difficulty with my balances, and if I try to keep them apart I have trouble with my cross entries. Henceforth I will *totally abolish* 'Office Cash,' and pass everything through the Bank. All money that comes in shall be paid into Bank immediately, and no money shall be paid out except by cheque." Well, there is no mistaking the simplicity of this system. You make your Banker your cashier, and you have an almost unerring check on the accuracy of the most important branch of your accounts. No doubt there are some practical difficulties even with this simple plan, but so great are its merits that it is adopted now by the majority of important houses of business.

One practical difficulty is that Banks close early, and money may arrive at my house of business too late for me to pay it into Bank. This difficulty is easily met by making my financial day end at an early hour, and entering all receipts after that hour to the next day.

Another difficulty is that I may have to pay away a number of sums of money (for sundry Trade charges, or on account of my clients) too small to draw cheques for. This difficulty is met by drawing a single cheque for such sum as will cover the probable outgoings of this kind for a short period of time, say a week. This sum of money I call PETTY CASH, and hand it to one of my clerks with instructions as to its disposal. Every penny he spends from this fund he enters in a book kept for the purpose, called PETTY CASH BOOK (see page 110), and at the end of the period (or before if he begins to run short) he hands me his book, showing that he has expended, say, £2 15*s.*; so I draw a cheque for that amount exactly, and this restores the balance in the hands of my Petty Cashier to exactly what it was at the commencement of the institution of the system. If the expenses for the next day (or period) happened to be £5 17*s.* 6*d.*, I draw a cheque for £5 17*s.* 6*d.*, and so on, so that £10 is always the amount set aside for Petty Expenses. This is called the Imprest System.

It is obvious that the series of transactions recorded in the last four examples must be modified for the method we are now considering.

TRANSACTIONS.

[NOTE.—Compare this series of Transactions with that given on page 171.]

Jan. 1. Cash in hand £775 0 0

As we agreed to abolish Office Cash, I took care on Dec. 31 to pay in the £75 (which I held) to my Bank account, so that I might start on Jan. 1 with only one kind of Cash.

Jan. 1. Drew for Petty Cash £10 0 0

I drew this cheque to meet sundry small expenses, which I knew would be likely to occur, and placed the money in charge of one of my clerks.

Jan. 1.	Received of	J. Smith	£50	0	0
,, ,,	,, ,,	W. Watson	55	12	6
,, ,,	,, ,,	E. Emson	35	0	0
,, ,,	,, ,,	H. Hampson	5	15	6

Several additional receipts have been added on this date in order to illustrate the method of entering, when two or more amounts are paid into the Bank in one sum.

Jan. 1.	Paid J. Brown	£25	0	0
,, ,,	,, J. Robinson	60	0	0

The words "by cheque" are omitted as unnecessary, since *all* payments are now made by cheque. The transaction "Sundry Trade Expenses, £1 2*s.* 6*d.*," is omitted, because this is paid out of Petty Cash.

Jan. 1.	Sundry Cash Sales	£13	10	0
,, 2.	Trade Expenses as per Petty Cash Book Jan. 1	1	2	6

On Jan. 2 I draw this cheque to restore the balance in the hands of my clerk to its original amount, viz. £10.

Jan. 2.	J. Jackson pays into my Bank account	£85	0	0
,, ,,	Received of F. Fowler	10	0	0
,, ,,	,, ,, J. Gunter	15	15	0
,, ,,	,, ,, W. Hunter	12	10	0

The last three transactions have been introduced to illustrate the difference in entering Jackson's payment into Bank and the other three payments made direct to myself. N.B.—The object of this method of entering is to make the amounts in my Cash Book agree *item by item* with those in my Bank Pass Book, so that they can be easily ticked off one against the other in case of discrepancy. [See page 187.]

Jan. 2.	Sundry Cash Sales	£12	5	6

The entry "Paid into Bank £50" is omitted because *all* moneys received are paid into Bank *the same day.*

Jan. 2.	Drew for Private Expenses. . .	£20	0	0

The word "cheque" is omitted because *all* drawings and payments are by cheque.

Jan. 2.	Drew cheque for Sundry Repairs. .	£5	5	6

Trade expenses of a special nature are frequently met by drawing a special cheque instead of paying them through Petty Cash. This transaction is introduced to illustrate a case of this kind.

Jan. 3.	Trade Expenses as per Petty Cash Book (Jan. 2)	£	15	0
,, ,,	Received of J. Jones	16	0	0
,, ,,	Bought Goods for Cash	90	0	0

The entry "Drew from Bank for Current Expenses £100" is omitted, since any drawing of this kind is inconsistent with my present system. I have no *need* of cash for current expenses now, for I have resolved to meet *all* current expenses (except trifling ones) by cheque.

Jan. 3.	Sold Goods for Cash	£10	11	4
,, ,,	Paid J. Johnson	30	0	0
,, ,,	,, J. Wilson.	40	0	0

Jan. 4. Drew cheque for Petty Cash . . . £6 17 0
as under :—

Wages . . .	£2 10	6
Trade Expenses .	2 5	0
On account of A. B.	10	6
„ „ C. D.	17	0
Stamps	14	0
	6 17	0

This transaction has been modified in order to illustrate the method pursued when the Petty Cash clerk undertakes payments of various kinds having to be posted to different accounts in the Ledger, some on account of the Firm and some on account of its clients. These payments are supposed to have been *already* made on Jan. 3. The next transaction is an illustration of several payments *about to be made* by one cheque.

Jan. 4. Sundry small payments, viz. :—

E. Clarke . .	£4 10	0
F. Cole . . .	5 5	0
G. Coke . . .	1 17	6
	£11 12	6

It is quite obvious from the example given on the next two pages, that this form of Cash Book, as well as those that have already been shown, are simply variations of classified Journals.

Dr. **Example VI. (e). Where all Cash is**

Date.	Name of Account.	Particulars.	Folio of Ledger.	Received. £	s.	d.	Paid IN to Bank. £	s.	d.
1895									
Jan. 1	J. Smith			50	0	0	...	...	...
	W. Watson			55	12	6	...	...	...
	E. Emson			35	0	0	...	...	...
	H. Hampson			5	15	6	146	8	0
	Goods ...	Cash Sales ...		13	10	0	13	10	0
2	J. Jackson			85	0	0	85	0	0
	F. Fowler			10	0	0	...	...	...
	J. Gunter			15	15	0	...	...	...
	W. Hunter			12	10	0	...	...	...
	Goods ...	Cash Sales ...		12	5	6	50	10	6
3	J. Jones			16	0	0	...	...	...
	Goods ...	Cash Sales ...		10	11	4	26	11	4
	Cash Dr.	To Receipts ..					321	19	10
	,, ,,	,, Bal. Jan. 1					775	0	0
							1,096	19	10

The above will be found a convenient method of balancing whenever it is time. The totals are posted into the Ledger, the balances being checked there- period forms an excellent intermediate check on the accuracy of the figures. I

Dr. CASH

		Balances. £	s.	d.	Receipts. £	s.	d.	Totals. £	s.	d.
1895										
Jan. 1 to 4	Cash Book, f. 1 ...	775	0	0	321	19	10	1,096	19	10
5	,, ,, f. 2 ...	796	7	4	72	5	0	868	12	4
6	,, ,, f. 3 ...	747	1	4	170	10	0	917	14	4

Paid and Received through the Bank *Cr.*

Date.	Name of Account.	Particulars.	Folio of Ledger.	Paid. £	s.	d.	Drawn OUT of Bank. £	s.	d.
1895									
Jan. 1	By Petty Cash			10	0	0	10	0	0
	,, J. Brown...			25	0	0	25	0	0
	,, J. Robinson			60	0	0	60	0	0
2	,, Trade Exs.	P. C. Book ...		1	2	6	1	2	6
	,, Capital a/c	Private Expenses		20	0	0	20	0	0
	,, Trade Exs.	Repairs ...		5	5	6	5	5	6
3	,, ,, ,,	P. C. Book ...		0	15	0	0	15	0
	,, Goods	Cash Purchases.		90	0	0	90	0	0
	,, J. Johnson			30	0	0	30	0	0
	,, J. Wilson			40	0	0	40	0	0
4	,, Wages	P. C. Book ...		2	10	6	...	...	...
	,, Trade Exs.	,,		2	5	0	...	...	...
	,, A. B.	,,		0	10	6	...	...	...
	,, C. D.	,,		0	17	0	...	...	...
	,, Stamps	,,		0	14	0	6	17	0
	,, E. Clarke			4	10	0	...	...	...
	,, F. Cole			5	5	0	...	...	...
	,, G. Coke			1	17	6	11	12	6
	Cash Cr.	By Payments					300	12	6
	,,	,, Bal. Jan. 4					796	7	4
							1,096	19	10

desired to keep a record of all cash receipts and payments for a given period of from. The casting of the three columns in the Ledger at the end of any given have assumed the amounts for Jan. 5 and 6 to exemplify this method.

ACCOUNT. *Cr.*

		Payments. £	s.	d.	Balances. £	s.	d.	Totals. £	s.	d.
1895										
Jan. 1 to 4	Cash Book f. 1 ...	300	12	6	796	7	4	1,096	19	10
5	,, ,, f. 2 ...	121	11	0	747	1	4	868	12	4
6	,, ,, f. 3 ...	50	0	0	867	14	4	917	14	4

CLOSING THE CASH BOOK.

Two other methods of closing the Cash Book may be shown here. Each of these has its advantages :—

A.—When the Cash Book itself is balanced.

Dr. SIDE.

Jones, Brown, Robinson } &c., &c.	£ s. d. Bank Receipts : Items.	£ s. d. Cash Receipts : Items.
Cash, *Dr.* To Receipts	135 0 0	202 6 10
,, ,, Balance (Jan. 1)	700 0 0	75 0 0
	835 0 0	277 6 10

Bank and Cash being both posted to one account called Cash account.

Cr. SIDE.

Jones, Brown, Robinson } &c., &c.	£ s. d. Bank Payments : Items.	£ s. d. Cash Payments : Items.
Cash, *Cr.* By Payments	250 0 0	173 14 6
,, ,, Balance (Jan. 18)	585 0 0	103 12 4
	835 0 0	277 6 10

The above is in some respects a better plan than that of bringing the balances forward at the *beginning* of the month, as it shows the *total* receipts and payments for a given period, and enables them to be readily compared with those of any preceding period.

B.—When the Cash Book is not balanced.

Instead of posting the totals to an account in the Ledger (or balancing in the Cash Book itself) they may be carried to a

special book called the "*Balancing Book*," the Bank and Cash balances being dealt with independently, as follows:—

BANK BALANCE.

		£	s	d
Jan. 1.	Balance	700	0	0
	Add Bank receipts	135	0	0
		835	0	0
	Deduct Bank payments	250	0	0
Jan. 18.	Balance according to my books, see page 178	585	0	0

This balance must now be agreed with the balance of my "Pass Book." The "Pass Book" is a small book issued by bankers to each of their depositors, and containing an exact copy of the depositor's account as it stands in the banker's Ledger. If all cheques (both IN and OUT) were presented and paid on the day of issue, the depositor's account in the bank books would necessarily agree with the "Bank" account in the depositor's books. As however this is not always possible, we must make what is called a Reconciliation statement.

RECONCILIATION.

		£	s	d
Jan. 18.	Balance in "Pass Book" . . .	615	0	0
	Less my cheque to Johnson (Jan. 16) not yet presented . . .	30	0	0
		585	0	0
	Add cheques paid in but not realised	(none)		
	Agreeing with my books as above	585	0	0

Caution 1. A Reconciliation Statement must never be made out by simply entering the discrepancy in a lump sum as "Balances of cheques not presented," etc., without specific and exhaustive inquiry as to the particular debits or credits that are not entered in Bank Pass Book.

Caution 2. See that all Banker's **charges** (for cheque books, interest, etc.) are duly entered in your own books, or you will have difficulty with your Reconciliation

CASH BALANCE (see pp. 178, 179).

Jan. 1.	Cash in hand			£75 0 0
	Add sundry receipts			202 6 10
				277 6 10
	Deduct sundry payments . . .			173 14 6
	Balance (Jan. 18)			£103 12 4
As under :—				
	Notes . .	£45 0 0		
	Gold	50 10 0		
	Silver . . .	7 2 6		
	Postal Orders .	18 0		
	Coppers . .	1 10		£103 12 4

(*Signed* J. T.)

The receipts, payments, and balances can then be transferred *from the Balancing Book* to the Ledger account kept in the following form, for the convenience (i.) of comparison, (ii.) of casting at the end of the half-year and obtaining the total receipts and payments for that period.

BANK ACCOUNT.

	Dr.				*Cr.*			
	Balances.			Receipts.			Payments.			Balances.		
1895	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*
Jan.	700	0	0	135	0	0	250	0	0	585	0	0
Feb.	585	0	0	500	0	0	470	0	0	615	0	0
March	615	0	0	772	0	0	452	0	0	935	0	0
	Total Receipts			1,407	0	0	1,172	0	0	Total Payments		
	Bal. Jan. 1 ...			700	0	0	935	0	0	Bal. March 31		
				2,107	0	0	2,107	0	0			

Cash Account can be kept in a similar manner, or if preferred the two accounts can be "*combined*" as at foot of pp. 184, 185.

The *classified Journal* comes out very clearly in the case of a Cash Book with

DESTINATION COLUMNS.

Destination columns are exceedingly useful for "localising" errors. Here is the principle of the thing in a nutshell :—

Dr. CASH BOOK. Cr.

	Ledger A	Ledger B		Ledger A	Ledger B
Sundry Receipts posted to the *Credit* of various Accounts in Ledger **A** and **B** respectively	£150	£20	Sundry Payments posted to the *Debit* of various Accounts in Ledger **A** and **B** respectively ...	£30	£200

Suppose the clerk in charge of Ledger A proceeds now to balance his Ledger.

LEDGER A.	SUNDRY DEBITS.	SUNDRY CREDITS.
Had Balances on Jan. 1	£1,250	£240
Postings from Journal or other books of original entry (these also being kept with Destination columns) ...	500	600
Postings from Cash Book (see example above)	150	30
Ledger **A** *should* therefore at close of period show	1,900	870

If the actual taking out of the balances of Ledger A shows a result *agreeing with the above*, the clerk in charge of this Ledger may be sure that whatever discrepancy may exist in the general balance, it will not be brought home to him. If, on the other hand, there is a discrepancy here similar to that in the general balance, the error has been "*localised*." It will be found somewhere in the pages of Ledger A.

Example VII. With

Date.		Folio of Ledger.	Discounts.			Cash.			Totals Posted. To Sales Ledger.			To Private Ledger.		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1895 Jan. 1	J. Smith		2	10	0	50	0	0	52	10	0			
,,	W. Watson.....		2	7	5	55	12	6	57	19	11			
,,	E. Empson			17	6	35	0	0	35	17	6			
,,	H. Hampson			...		5	15	6	5	15	6			
,,	Goods Cash Sales			...		13	10	0		...		13	10	0
2	J. Jackson		3	3	6	85	0	0	88	3	6			
,,	F. Fowler			10	0	10	0	0	10	10	0			
,,	J. Gunter			...		15	15	0	15	15	0			
,,	W. Hunter			2	6	12	10	0	12	12	6			
,,	Goods Cash Sales.....			...		12	5	6		...		12	5	6
3	J. Jones			3	5	16	0	0	16	3	5			
,,	Goods Cash Sales			...		10	11	4		...		10	11	4
	Discounts Dr.		9	14	4		...			...				
	Cash Dr.			...		321	19	10		..				
	Sundry Debtors Cr...			...			...		295	7	4			
	Private Ledger Cr...			...			...			...		36	6	10
						321	19	10		...		36	6	10
						9	14	4		...		295	7	4
						331	14	2		...		331	14	2

Each side of this Cash-Book is cast in such a way as to show the agreement of shown either in the Balancing Book (see page 187) or in the Cash

Destination Columns

Date.		Folio of Ledger.	Discounts, &c			Cash			Totals Posted. To Purchases Ledger			To Private Ledger.		
1895			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Jan. 1	By Petty Cash			...		10	0	0		...		10	0	0
,,	,, J. Brown		1	5	0	25	0	0	26	5	0			
,,	,, J. Robinson		3	0	0	60	0	0	63	0	0			
2	,, T. E. P. C. Book			...		1	2	6		...		1	2	6
,,	,, Capital a/c P. E.			...		20	0	0		...		20	0	0
,,	,, T. E. Repairs ...			...		5	5	6		...		5	5	6
3	,, ,, P. C. Book			...			15	0		...			15	0
,,	Goods Cash Pur.		1	10	0	90	0	0		...		91	10	0
,,	J. Johnson		1	10	0	30	0	0	31	10	0			
,,	J. Wilson		2	0	0	40	0	0	42	0	0			
4	Wages P. C. B.....			...		2	10	6		...		2	10	6
,,	T. E. ,, ...			...		2	5	0		...		2	5	0
,,	A. B. ,, ...			...			10	6		10	6			
,,	C. D. ,, ...			...			17	0		17	0			
,,	Stamps ,, ...			...			14	0		...			14	0
,,	E. Clarke				6	4	10	0	4	10	6			
,,	F. Cole.....			5	0	5	5	0	5	10	0			
,,	G. Coke			...		1	17	6	1	17	6			
	Discounts Cr.		9	10	6		...			...				
	Cash Cr.			...		300	12	6		...				
	Sundry Creditors Dr.			...			...		176	0	6			
	Private Ledger Dr...			...			...			...		134	2	6
						300	12	6				134	2	6
						9	10	6				176	0	6
						310	3	0				310	3	0

Debits with Credits as if it were a Journal. The balancing of the Cash itself is Account to which the total receipts and payments have been posted.

PRACTICAL USE OF DESTINATION COLUMN.

It very commonly happens in real life that there are *three* Ledgers (or groups of Ledgers) in use—(i.) Sales Ledger, for keeping accounts of those persons to whom I have sold Goods; (ii) Purchases Ledger (or Bought Ledger), for the accounts of persons from whom I have bought Goods; and (iii.) Private Ledger, for Real accounts, Nominal accounts, and perhaps also sundry personal accounts that do not come properly into either of the other Ledgers.

Suppose then that we have *three* "destination" columns:—

Dr. CASH BOOK. *Cr.*

Receipts.	DESTINATION. Sales Ledger A	Purchases Ledger B	Private Ledger C	Payments.	DESTINATION. Sales Ledger A	Purchases Ledger B	Private Ledger C
Sundry Credits posted to various Accounts in the three Ledgers ...	£ 500	£ 12	£ 95	Sundry Debits posted to various Accounts in the three Ledgers ...	£ 5	£ 450	£ 120

Now let me open an account in the Private Ledger headed "Sundry Debtors," and another headed "Sundry Creditors," and we shall begin to see another advantage of our destination columns.

Dr. SUNDRY DEBTORS. *Cr.*

	£		£
Jan. 1. To Balances from Balance Sheet	1,250	Jan. 31. By Cash from Cash Book column **A.**	500
Jan. 31. To Total Sales (from Day Book)	750		

I can now balance the above account, and see that the **total value of my Debts Receivable** is £1,500. This is not only in itself a very valuable piece of information, very simply

obtained, but it affords a useful check on the balancing of the books.

PRACTICAL DIFFICULTIES.

(i.) There are so very few Cash *credits* for the "Purchases" Ledger, and so very few Cash *debits* for the Sales Ledger in practical work, that it is hardly worth while devoting a special column to a purpose which would only be required, say, once or twice in a thousand entries.

This difficulty is met by making such entries in the Private Ledger column, but marking them in some special way (either in red ink or otherwise) so that to pick them out at balancing time is the work of a few moments only.

(ii.) I may have dealings with A. B. both as a buyer and a seller, and in this way A. B. may be neither a constant Debtor nor a constant Creditor, but may fluctuate between the two.

The best way to meet this difficulty is to keep two accounts for A. B., making him a Creditor for what he sells me and (in another account) a Debtor for what he buys from me. It is easy at any time to compare the two accounts and ascertain A. B.'s actual position.

NOTE ON EXAMPLE VII.—The question may possibly occur to the student: Why is not the £90 for Cash *Purchases* on Jan. 3 entered in the *Purchases* Ledger? The answer is that the term *Purchases* Ledger is a misnomer. The full title should be "Ledger containing the accounts of those *persons* from whom I have purchased Goods on credit." The account of the purchases themselves will be found in the private Ledger, either in "Purchases" account or in "Goods" account.

CASH BOOK WITH COLUMNS FOR BILLS.

To regard Bills as Cash, and to enter their incomings and outgoings in the Cash Book, is a custom of our forefathers much better honoured in the breach than the observance. This plan is very strongly to be deprecated, for it increases the complexity we have already noticed arising from having two kinds of Cash (Cash in hand and Cash in Bank), making *three* kinds, if not *four!* and it gives rise to sundry subtle devices for evading this difficulty which seriously bewilder the mind of the unfortunate Bookkeeper who has to keep his books on this system.

I have before me, whilst I am writing, a book called

"Lessons in Cash Keeping," and I quote two sentences from it:—

"(*a*) Bills Payable, though not Cash, must be entered in the Cash Book, because they are used in the payment of accounts (!)

"(*b*) Bills Receivable are generally entered in the Cash columns" (!)

This is certainly not the usual custom at the present day, and it is only noticed in order to be condemned. Bills are *not* Cash (although they very usefully fulfil some of the *functions* of Cash), and if we wish to distinguish between things that differ we shall not enter them in the Cash Book.

I am speaking, of course, of the granting of bills. When Bills are paid, or discounted, that is a different matter. The INcoming or OUTgoing of Cash *itself* is affected, and for *these* incomings and outgoings it is manifest that entries must be made in the Cash Book.

Whether a separate "detail" column should be ruled in the Cash Book for INcomings and OUTgoings of Cash that arise out of the cashing of B. R. and the payment of B. P. depends entirely on the frequency of such transactions.

NOTE.—In practice the discount on Bills Receivable is rarely if ever entered in the discount columns of the Cash Book. The Bills are credited in full on the *Dr.* side of Cash Book, and P. and L. or Discount account debited on the *Cr.* side. This follows the plan adopted by the Banks when discounting the bill, and thereby renders agreement with the Bank Pass book more convenient. Sometimes the exact amount charged by the bank for discount is not known until the Pass book comes in, when several charges of this kind are entered all at one time.

A "CASH BOOK" NOT A JOURNAL.

Whilst it is quite true that the Cash Book is in reality a branch of the Journal, it does not follow that it is at all a wise plan to turn it into a Journal, and insert in it entries that have no connection either with the INflow or OUTflow of Cash itself.)

I have seen Cash Books in actual practice in which miscellaneous entries of all kinds have been made. Take, for example, the following transactions :—

1. Charge J. Jones with Interest on overdrawn account £5
2. Credit Landlord, E. Rose, with rent due . . . 25
3. R. Elton pays me his Acceptance . . £50
   Cheque 50
   Cash 15
   and I allow him Discount 3 118
4. H. Wilkins' Acceptance dishonoured 75

When they are jumbled together in a "Cash Book" in this way :—

Dr. CASH BOOK. *Cr.*

	£		£
To P. and L., Jones	5	By J. Jones, Interest	5
,, E. Rose, Rent	25	,, P. and L., Rent	25
,, R. Elton	118	,, Bills Receivable	50
,, B. R. (Wilkins)	75	,, P. and L., Discount ...	3
		,, Wilkins, dishonoured bill ...	75

then the so-called "Cash Book" is in reality a Journal, and the totals of "Cash Receipts" and "Cash Payments" give a very false and exaggerated impression of the amount of actual business done, violating the first essential of true Bookkeeping, that it should be an honest record of *facts*.

CASH BOOK FOR EXAMINATIONS.

In examinations it is not advisable to introduce into the Cash Book more columns than are absolutely necessary. In most cases I should recommend *three* :—Discount, Cash, and Bank, as in Example IV. I should use no separate column for

realisation and payment of Bills, but should record them in the Bank (or Cash) column unless otherwise instructed. I should recommend the student to begin with Cash in hand and to *balance* the Cash Book, afterwards Journalising and posting the totals (see page 168), as this is the way that seems to be preferred by most examiners.

SUMMARY

1. Money is called in Bookkeeping CASH.

2. Cash consists of Gold, Silver, Copper, Notes, and Cheques.

3. A Credit Balance at a Bank is a Debt Receivable, but is usually called "Cash," and is the safest and most convenient form of Cash.

4. The Incomings and Outgoings of Cash are recorded in a special book called the CASH BOOK, which should be regarded as a branch of the Journal.

5. The principle that underlies every variety of Cash Book is that transactions having several debits or credits in common should be so arranged that these debits or credits can be conveniently posted into the Ledger in one amount.

6. Every Cash Book is therefore a more or less complex "Classified Journal."

7. Several different plans are adopted to overcome the difficulty of having two kinds of Cash. There is however *no escape from this dilemma:* If Bank and Cash are amalgamated, it is troublesome to ascertain their separate balances:—if they are kept distinct, a double Cash Book entry is needed for all cross transactions between the two.

8. "No escape," so long as we persist in having two kinds of Cash. But the abolition of Office Cash solves the difficulty at once.

9. The payment of trifling sums may be arranged by the *Imprest System.*

10. The balance of Cash or Bank account should be made to agree with the balance of the Bank Pass Book by a *Reconciliation* statement.

11. The Cash Book need not be balanced, if the totals are posted into the Ledger. This can be done in such a way as to encourage comparison of results for corresponding periods.

12. *Destination columns* are useful for localising errors, and for ascertaining the total value of Debts Payable and Receivable without the labour of extracting each individual balance from the Ledger.

13. Miscellaneous transactions that do not affect the Inflow or Outflow of Cash should not be entered in the Cash Book.

14. The various columns in the Cash Book are all used to analyse the various debits and credits involved in Cash transactions. These columns may be somewhat as follows :—

ANALYSIS OF DEBITS AND CREDITS

arising out of ordinary Cash Transactions.

A.—Debits and Credits arising out of Cash RECEIPTS.

Analysis of DEBITS.
1. *Cash*, for sundry receipts of Cash at Office.
2. *Bank*, for sundry payments IN to Bank.
3. *P. and L.*, for sundry discounts allowed by me.

Analysis of CREDITS.
1. *Goods Account*, for Cash sales.
2. *B. R.*, for Cash received for Bills Receivable.
3. *Sundry Debtors:* (1) Town. (2) Country. — for Cash received (and discounts allowed) in settlement or on account

B.—Debits and Credits arising out of Cash PAYMENTS.

Analysis of CREDITS.
1. *Cash*, for sundry payments from Office.
2. *Bank*, for sundry payments by cheque.
3. *P. and L.*, for sundry discounts allowed to me.

Analysis of DEBITS.
1. *Goods Account*, for sundry Cash purchases.
2. *B. P.*, for sundry acceptances paid by me at maturity, or retired under discount.
3. *Sundry Creditors:* (1) A to L. (2) M to Z. — for Cash paid (and discounts allowed to me) in settlement or on account.
4. *P. and L.*, for sundry business expenses.
5. *P. E.*, for sundry private or household expenses.

The Example on the next two pages is not intended as an example of any ordinary Cash Book, but as an *illustration of the principle* (of the analysis of debits and credits) which governs every variety of Cash Book ruling, in the most diverse kinds of the practical occupations of life.

CASH

Dr. **Example VIII.**

		Analysis of Debits.			Analysis of Credits.		
		Discounts.	Cash.	Bank.	Sundry Debtors.	B. R. Discounted, &c.	Cash Sales.
1895		£	£	£	£	£	£
Apr. 1	To Adams	2	40	...	42	...	...
3	,, B. R. No. 1	...	...	50	...	50	...
7	,, Cash Sales	...	115	...	...	...	115
11	,, Doulton	2	48	50	100	...	...
12	,, Emson	1	...	20	21	...	...
17	,, Fox	...	8	30	38	...	...
17	,, Goods (Cash Sales) ...	...	17	40	...	...	57
19	,, B. R. (Hunter)	...	...	1,200	...	1,200	...
21	,, Inskip	...	10	...	10	...	...
22	,, B. R. (Jackson)... ...	...	...	90	...	90	...
22	,, Killick	3	23	...	26	...	...
25	,, Goods (Cash Sales) ...	...	5	20	...	...	25
29	,, Lawson	19	81	100	200	...	...
		27	347	1,600	437	1,340	197

Summary.

Debits.	Credits.	
£	£	
27	437	P. and L., *Dr.* To Sundries.
347	1340	Cash, *Dr.* To Sundries.
1600	197	,, *Dr.* To Sundries.
		Sundries, *Dr.* To Sundry Debtors *Cr.*
		,, *Dr.* To B. R. *Cr.*
		,, *Dr.* To Goods *Cr.*
1974	1974	

BOOK

(fully analysed) *Cr.*

		Analysis of Credits.			Analysis of Debits.				
		Discounts.	Cash.	Bank.	Sundry Creditors.	B. P.	Cash Purchases.	P. and L.	P. E.
1895		£	£	£	£	£	£	£	£
Apr. 4	Monarch	5	16	129	150	...	...	...	...
5	B. P. No. 1	...	...	300	...	300	...	...	...
7	Cash Purchases	...	5	65	...	..	70	...	...
12	Newton	..	...	90	90	...	...	...	...
12	Owen	..	40	10	50	...	...	...	...
15	Private Expenses	..	...	80	...	...	...	...	80
30	Queen's Taxes	..	...	25	25	...	...	...	...
31	Rent of Office	..	30	...	...	...	...	30	...
,,	Salaries	..	5	85	...	...	...	90	...
,,	Trade Expenses	...	6	10	...	...	...	16	...
,,	Cash Purchases	...	150	250	...	...	400	...	...
,,	P. E. (R. Abel)	...	...	40	...	...	...	...	40
,,	P. E. (Household)	...	...	10	...	...	...	...	10
30	B. P. No. 2 Paid	..	60	...	...	60	...	...	...
,,	Discount on B. R. No. 1 (3)	...	...	2	...	...	...	2	...
,,	,, ,, (Hunter's) (19)	...	...	4	...	...	...	4	...
		5	312	1,100	315	360	470	142	130

Summary.

Debits.	Credits.	
£	£	
315	5	Sundries, *Dr.* To P. and L. *Cr.*
360	312	,, *Dr.* To Cash *Cr.*
470	1100	,, *Dr.* To Bank *Cr.*
142		
130		
1417	1417	

Sundry Creditors, *Dr.* To Sundries.

B. P., *Dr.* To Sundries.

Goods, *Dr.* To Sundries.

P. and L., *Dr.* To Sundries.

Capital, *Dr.* To Sundries.

EXERCISES ON LESSON XI.

Exercise VI.

(Cambridge Local Examinations.)

Thomas Brown's Cash Book is ruled on each side with three money columns, viz., "Discount," "At Office," "At Bank." Show how to enter in the Cash Book such of the following transactions as should appear. Then balance the Cash Book.

Jan. 1. Cash in Hand £300; Jan. 3. Sold Goods to Robert Jones £700; Received Robert Jones's Bill £700, Discounted Bill £700, receiving in Cash £685; Jan. 4. Bought Goods £400, Gave my acceptance falling due 21st inst. in payment of Goods £400; Jan. 21. Paid my acceptance due this day £400; Jan. 31. Paid Wages £20; Feb. 1. Drew from Bank for Office use £50; Feb. 6. Took up my acceptance £150 due 24th June and was allowed £4 for discount; Feb. 28. Paid Office Cash into the Bank at the close of the month £25.

Exercise VII.

(Adapted from Oxford Local Examination paper.)

Edward Simpson began business on Jan. 1, 1893, having Cash at Bank £87 8*s.* 7*d.*, Railway shares valued at £1,500, and Thomas Read's acceptance, due Jan. 23, for £500.

[N.B.—All cheques pass through Bank the same day.]

Jan. 2, 1893. Bought Goods from E. Harris £429 13*s.* 8*d.*; Jan. 4. Drew from Bank for Petty Cash £10; Jan. 5. Bought Goods from T. Broughton £179 14*s.* 11*d.*; Jan. 7. Deposited Railway Shares with Bank, as security. Paid E. Harris, Cheque £386 14*s.* 4*d.*, Discount allowed £42 19*s.* 4*d.*; Jan. 9. Sold Goods to Williams & Co. £205 12*s.* 9*d.*; Jan. 13. Sold Goods to E. Richardson £118 18*s.* 3*d.*; Jan. 15. Accepted T. Broughton's Draft £100, and paid him Cheque £70 (the Balance owing to him being allowed as discount); Jan. 19. Sold a portion of the Railway Shares for £500 (the proceeds being placed to my account at the Bank); Jan. 23. Amount of T. Read's acceptance, due to-day, collected by Bank £500; Jan. 24. Paid for Office Furniture, Cheque £84; Jan. 26. Sold Goods to Williams & Co. £121 2*s.* 1*d.*; Jan. 29. Received from E. Richardson my acceptance to T. Broughton £100, Cheque £10, Discount allowed £8 18*s.* 3*d.*; Jan 30. Petty Cash payments for month £7 12*s.* 9*d.*

Open the books of Edward Simpson on Jan. 1, and (1.) Enter in Cash Book all the Cash, Bank, and Discount transactions. (2.) Journalise those transactions which have not already appeared in the Cash Book [including Cash Book totals]. (3.) Post from the Journal and Cash Book to the Ledger. (4.) Take out the Trial Balance. (5.) Close the Books by means of the proper Journal entries, and draw up a Balance Sheet. Take Goods on hand as worth £170.

Exercise VIII.

Enter the transactions given in a fully analysed Cash Book. Journalise those transactions that do not come into the Cash Book. Post, **Totals only**, of Cash Book. (If the analysis of the Cash Book is sufficiently thorough, you can arrive at a correct result *without posting the items.*) Then Balance and Prove. Only one account for Cash and Bank to be kept in the Ledger.

(N.B.—You are required to make out one account for "Sundry Debtors" and one account for "Sundry Creditors.")

On April 1, 1895, Messrs. G. Lohman & Co. had Stock of Goods valued at £2,500, Cash in Bank of London and Tarapaca £200, Cash in Office £10. They held Acceptance No. 1 for £50, Hunter's Acceptance for £1,200, and Jackson's acceptance for £90. Their Office Furniture was valued at £150, and they were owed by Adams £42 and Doulton £100. Their Liabilities were Bills payable No. 1 £300, No. 2 £60. They owed for Taxes £25, to Newton £90, to Owen £50, to Monarch £150, to Heaton £667. Robert Abel's Capital Account was credited with £3,000, he being the sole surviving partner in the concern. April 1. Received from Adams in settlement, Cash £40; April 3. B. R. No. 1 discounted at Bank, Discount charged £2; April 4. Give Monarch my Cheque on Bank of L. and T. £129, and Cash £16, he allowing me Discount £5; April 5. My acceptance paid this day by Bank £300; April 7. Bought Goods for Cash £5 and for cheque on my Bank £65, Sold Goods to A. J. L. Hill for Cash £115; April 11. Doulton gave me Cash £48 and Cheque £50 in settlement; April 12. Paid to Newton's Account at Bank £90; Gave Owen Cheque £10 and Cash £40; Received of Emson Cheque for £20 in settlement of Account of £21 (This debt arises out of Monthly Credit Sales, see April 30); April 15. Drew Cheque for Private Expenses £80; April 17. Fox gave me Cash £8 and Cheque for £30; Sold Goods to G. J. V. Weigall and received Cash £17, and Cheque £40; April 19. Discounted Hunter's Acceptance at Bank, Discount charged £4; April 21. Received from Inskip, Cash £10; April 22. Bank received payment of Jackson's Acceptance due this day £90; April 23. Killick paid me Cash £23, I allowing Discount £3; April 25.

W. Rashleigh bought Goods and paid in Cash £5 and Cheque £20; April 29. Received Cheque from Lawson £100, Cash £81, and allowed Discount £19; April 30. Paid B. P. No. 2 with Cash £60, Paid Tax Collector by Cheque £25; April 30. Paid Salaries in Cash £5, by Cheque £85, Paid Trade Expenses Cash £6, by Cheque £10; Paid Rent 1 month £30; Paid Cash £150 and Cheque £250 for Goods; Drew Cheque for Private Expenses £40, Drew Cheque for Household Expenses £10; April 30. Monthly Credit Sales £1,060; Monthly Credit Purchases £60, Bills Receivable received from Sundry Debtors £300, Bills Payable granted to Sundry Creditors £160, Monthly Returns inwards £35; April 30. Value of Stock on Hand £2,250.

Exercise IX.

(College of Preceptors.)

Draw up a Cash Book from the following transactions, and balance it:— Jan. 1. Cash on Hand £1,000; Jan. 2. Sold Goods for Cash £150 8*s.* 4*d.*; Jan. 3. Bought Goods for Cash £217 11*s.* 9*d.*; Jan. 4. Paid Trade Expenses £37 19*s.* 11*d.*; Jan. 5. Smith's Account £50 received, *Less* Discount £1 4*s.* 9*d.*; Jan. 6. I pay R. Wyatt's Account of £300, *Less* Discount £9 11*s.* 4*d.*; Jan. 8. Payments made by sundry people £215 19*s.* 11*d.*; Jan. 9. Paid for repairs to premises £19 14*s.* 7*d.*; Jan. 10. Sell waste paper for Cash £1 13*s.* 4*d.*; Jan. 11. Make payments to Sundry persons £171 11*s.* 10*d.*; Jan. 12. Paid various Salaries £22 13*s.* 9*d.*; Jan. 13. Received for Rent of part of Office £36 18*s.* 7*d.*; Jan. 14. Paid Rates £14 4*s.* 7*d.*; Jan. 15. Sundry small receipts £27 6*s.*; Jan. 16. Postages, &c., paid £6 8*s.* 0*d.*

Exercise X.

(Adapted from a Society of Arts paper.)

Of the following transactions enter those you can in a Cash Book (with three columns) and Journalise the rest. Post into the Ledger, and prepare a Trial Balance, Profit and Loss Account, and Balance Sheet.

On the 1st of January, 1882, John Rose (Cooper) was possessed of the following Business Assets: Freehold Premises valued at £3,000; Plant and Machinery £1,608; Stock-in-trade £2,410 19*s.* 2*d.*; Office Furniture £106 5*s.*; Cash at Bankers £915 1*s.* 6*d.*, Cash in Office £16 5*s.* 9*d.*; Bills Receivable:—Ship Brewery Co., due Jan. 7th £231 6*s.* 6*d.*, R. Conway, due Jan. 19th £174 10*s.*, J. Smith, due March 6th £88 11*s.* 8*d.*; Book Debts:—F. Stamp £251 3*s.* 8*d.*, C. Hart £113 5*s.*; At the same time he owed: On Bills Payable:—S. Hill, due Jan. 4th £186, P. Jones, due Jan. 12th £219; To Creditors:—N. Hobbs £376 18*s.*, Stiff & Co. £527 3*s.* 7*d.*; His transactions for the month were:—Jan. 1, 1882. Paid

Stiff & Co. their account, less 2½% for Cash; Sold Star Brewery Co. for net Cash, 150 kildns. @ 14*s.* £105; Jan. 3. Received of F. Stamp £245. Allowed him Discount £6 3*s.* 8*d.*, Paid Fire Insurance £57 13*s.*; Jan. 4. Paid S. Hill's Draft due this day £186; Jan. 5. Paid Office Expenses for week £10 5*s.* 6*d.*; Paid Wages as per Wages Book £74 8*s.* 9*d.*; Jan. 7. Received payment of Ship Brewery Co.'s Acceptance £231 6*s.* 6*d.* · Jan. 9. Bought of Stiff & Co., Timber per invoice £357 11*s.* 6*d.*; Jan. 11. Drew Cheque for Office Cash £30; Jan. 12. Bought Hoop Iron of N. Hobbs, 3 tons @ £15 10*s.*, Paid Office Expenses for week £11 15*s.*; Paid Wages £82 19*s.*; Paid P. Jones's Bill, due this day £219; Jan. 14. Sold W. Stroud & Co. :—100 barrels @ 21*s.* 6*d.* £107 10*s.*, 200 kildns. @ 13*s.* 9*d.* £137 10*s.*, Total £245; Drew on them for amount at 2 months; Jan. 16. Paid repairs to boundary wall £14 15*s.* Paid for portable Steam Engine delivered this day per contract with W. Edleston £120, Less 5% as agreed; Jan. 18. Paid Poor and Highway Rates £27 15*s.* 9*d.*; Jan. 19. R. Conway's acceptance dishonoured £174 10*s.*; Jan. 20. Paid Office Expenses £13 7*s.* 6*d.*; Paid Wages £79 5*s.* 10*d.*; Sold Trueman & Co. 750 casks @ 21*s.* £787 10*s.*, Less 5% £39 7*s.* 6*d.*, Drew on them at 2 months for £500; Received Cash to Balance £248 2*s.* 6*d.*; Jan. 22. Paid N. Hobbs £150; Received payment of R. Conway's dishonoured Bill and Expenses £174 11*s.* 6*d.*; Jan. 23. Sold for Cash to W. Stroud and Co :—350 barrels @ 20*s.*, Less 5%; Jan. 24. Received first and final dividend of 3*s.* in the £ on debt owing by C. Hart £16 19*s.* 9*d.*; Paid subscription to Hospital £21; Paid Water Rate £15 7*s.* 6*d.*; Jan. 26. Bought for Cash of P. Loader, Coal, 40 tons @ 12*s.* 6*d.* £25; Paid Gas Company's Bill £36 15*s.* 10*d.*; Drew Cheque for Office Expenses £25; Jan. 27. Sold H. Joyce (net) :—200 hogsheads @ 25*s.* £250, 150 kilderkins @ 14*s.* £105, Received from him Cash £200, and Acceptance due 30th March £155; Paid Office Expenses for week £9 1*s.* 6*d.*; Paid Wages, as per Wages Book £67 14*s.*; Jan. 31. Paid Midland Railway Carriage Account £27 19*s.*; Stock of Goods on hand £2,122 17*s.*

APPENDIX TO LESSON XI

THE BANK OF ENGLAND

I propose to give in this appendix a brief answer to the question, What is the Bank of England, and why is it so safe?

It will be necessary to speak of its foundation, its privileges, its duties, its strength, and some of the results of this strength.

The Bank of England was founded in the reign of William III. William had only been on the throne six years, when he began to be seriously in need of money. Parliament was by no means unwilling to grant taxes, and taxes were levied to the extreme point of endurance, but still more money was wanted.

Under these circumstances it was very natural that he should think of borrowing. But borrowing was not such an easy matter in those days. Who would lend the money? Perhaps William would never pay it back. Perhaps he might mean to, but his government might be overthrown by his exiled father-in-law, aided by Louis XIV., and then he would be quite unable to pay.

Now all the Whigs in the country were very anxious to help William and to baffle the efforts of James to recover his crown. And there were some rich Whigs in London who, listening to the advice of a shrewd Scotchman named William Patterson, planned a scheme by which money was forthcoming.

The plan was to raise £1,200,000 by public subscription,

and to lend it all to the Government, the lenders to receive eight per cent. per annum interest, and become incorporated by Royal Charter, giving them power to *issue notes* on Government security to the extent of the sum lent.

Thus was the Bank of England started, and thus also was started the public funded debt of England, which has now reached the enormous sum of over 666 millions.

The scheme was a success from the first. The wealthy citizens of London readily came forward to its support, and the general public, seeing this, were glad to use its notes, more particularly as the coinage at that time was very deficient.

> The new institution was also greatly appreciated by the Government. "Formerly," says Macaulay, "when the Treasury was empty, when the taxes came in slowly, and when the pay of the soldiers and sailors was in arrear, it had been necessary for the Chancellor of the Exchequer to go hat in hand up and down Cheapside and Cornhill, attended by the Lord Mayor and Aldermen, and to make up a sum by borrowing a hundred pounds from this hosier and two hundred pounds from that ironmonger. Those times were over. The Government, instead of laboriously scraping up supplies from numerous petty sources, could now draw whatever it required from one immense reservoir which all those petty sources kept constantly replenished."

ITS PRIVILEGES.

The Bank of England had thus, from the very first, the privilege of being the Government Bank. The original loan of £1,200,000 has been increased nearly tenfold, though the Government do not now pay eight per cent. Moreover, all taxes and other public moneys are paid IN to the Bank as fast as they are received, and the money is then drawn OUT by cheques as required, much in the same way as money is drawn out of an ordinary bank by any house of business. (See Lesson XX.)

Another privilege possessed by the Bank of England is the right to issue bank notes. No other Joint Stock bank was allowed to issue notes until 1826, and even now no Joint Stock bank established within a radius of 65 miles of London possesses this privilege.

THE BANK ACT OF 1844.

In the year 1844 a great monetary *panic* occurred. When a panic occurs every one begins to distrust the financial standing of every one else. Creditors with loud voice apply to their debtors for immediate settlement, and holders of bank notes (promising to pay so much money on demand) all rush to the banks with the notes in their hands demanding the instant fulfilment of the promise. In 1844 some bankers were unable to meet these promises, and the holders of the notes had to return empty-handed from the banks which had been compelled to close their doors.

Now the real cause of a panic (*i.e.* blind distrust) is usually over-speculation (*i.e.* blind trust), and so it was in this case. But the public generally seemed to think the bankers were at the bottom of the mischief, and blamed them for the *over-issue* of their notes, and the Government of the day, impelled by the popular outcry, passed the famous Bank Act of 1844.

The chief points of this act are, (i.) The separation of the Bank business into two distinct branches, the Issue department and Banking department; (ii.) The publishing of a weekly statement, showing the Assets and Liabilities of each department; (iii.) The stipulation that for all notes issued over the amount of fourteen millions, gold to an equal value must be deposited in the Bank vaults. (iv.) A restriction on the note issue of all Private Country Banks.

THE DUTIES OF THE BANK.

It will be seen from the above summary that the Bank has duties as well as privileges. We shall understand the matter better, if we now take a look at one of the Weekly Returns which it is the duty of the Bank to render to the Government, which is posted up in the inner court of the Bank every Thursday afternoon and published in all the Friday daily papers.

BANK OF ENGLAND

An Account pursuant to the Act 7th and 8th Vict. cap. 32 for the week ending Wednesday, August 8th, 1894.

I. ISSUE DEPARTMENT.

Liabilities.	£	*Assets.*	£
Notes Issued ...	52,857,030	Government Debt	11,015,100
		Other Securities	5,784,900
		Gold Coin & Bullion ...	36,057,030
	£52,857,030		£52,857,030

II. BANKING DEPARTMENT.

Liabilities.	£	*Assets.*	£
Proprietors' Capital ...	14,553,000	Government Securities ...	12,667,381
Rest	3,297,696	Other Securities	19,762,356
Public Deposits ... (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend accounts)	5,754,280	Notes	26,617,335
		Gold and Silver Coin	2,334,288
Other Deposits ...	37,591,120		
Seven Day and Other Bill	185,264		
	£61,381,360		£61,381,360

A brief examination of each of the items of these two Balance Sheets will reveal the secret of the *strength* of the Bank of England.

I. THE ISSUE DEPARTMENT.

(*a*) *Liabilities:* Notes issued £52,857,030.

[This amount gives the total value of the notes circulated by the Bank, and is sometimes called *Circulation Issue*. Some of these notes in the course of their circulation are taking a rest in the other department of the Bank. If we subtract these from the total amount issued,

we find the value of the notes that are in circulation outside the walls of the Bank itself. This latter amount is often called *Circulation Active.*]

This is the only liability of the Issue department, but what an enormous one it is! Over fifty millions sterling of promissory notes, every one of which is payable ON DEMAND! It staggers one to think of it, and the question has often been put: What would happen if every holder of every note simultaneously demanded payment in gold?

In the first place this could only happen *in time of panic.* In ordinary times people are satisfied with the possession of the note, and only a very small proportion of the fifty-two millions has to be cashed in any one day.

In the second place, so great is the confidence felt by holders of bank notes in the ability of the Bank to pay, that even during the height of the worst panics of recent years, not only has there been no rush for their payment, but these panics have produced an exactly opposite effect. People who had money to lose have hastened in such times to *deposit* it in the Bank of England as the very surest means of keeping it safe.

In the third place, so close is the connection between the Government of England and the Bank of England, that the one is always ready to help the other, so that people could never come utterly to distrust the Bank unless at the same time they had utterly to distrust England itself.

"But still," the persistent questioner will say (and if you are a student of Bookkeeping you must not be afraid of persistent questioning), "in such a case as that, what would happen?"

Well, if the worst came to the worst, if you can imagine a dark day in England's history when every holder of a £5 Bank of England note suddenly demands payment, then in such a case the Bank must do what the private individual has to do when financial storms threaten his frail bark, and that is—*look to the ASSETS.*

Now let us examine the Assets of the Issue department. They are very simple. You will remember that in Lesson X. we learnt to *rank the Assets* in order of *availability*. Avoiding therefore the order in which they are printed, we take

(1) *Gold coin and bullion*, £36,057,030. *Bullion* consists of gold of a certain degree of fineness, viz., $\frac{11}{12}$ pure gold and $\frac{1}{12}$ alloy. This gold is made into bars and stamped at the Assaying office, and it is then known as standard gold. Any holder of gold in the form of bullion may take it to the Mint and have it coined into sovereigns free of all expense. If he delivers 480 ounces of bullion to the Master of the Mint, he will have it returned to him by and by in the shape of 1,869 sovereigns.

Now let us work out a little sum: *If* 480 *oz. are worth* £1,869, *what is the worth of* 1 *oz.?*

$$480 = 4 \times 12 \times 10.$$

Therefore dividing we have:—

10)£1,869 0 0

12)186 18 0

4)15 11 6

£3 17 10½

which is called the *Mint price of Gold.*

The Mint authorities, however, are in no hurry, and most people who want sovereigns are, so that it has become the invariable custom for holders of bullion to take it to the Bank of England, for there they can obtain the money at once by paying a small commission. In other words, the Bank will only give at the rate of £3 17*s.* 9*d.* per oz., retaining the 1½*d.* for their trouble in sending the bullion to the Mint.

But in the extravagant case we are supposing, the Bank would want all its bullion turned into coins, and if they had received

any forewarning of the "*run*" we have imagined, would have set the Mint to work as hard as possible on the bars in its possession.

Let us give them the benefit of the notice, and say that they have turned all their bullion into coin in time. We will further quite ignore the blockade in the City caused by thirty-six millions of gold being carted away to the homes of the frightened note holders.

Consider only the strength and security of this asset. Consider that there is enough gold in the Bank to pay more than half, more than two thirds of all its notes, at a moment's notice, and then pass on to look at the other assets.

(2) *Government Debt*, £11,015,100.

This debt we have already referred to. You will remember the modest £1,200,000 from which it sprang, and that it was the very cause and origin of the Bank's existence. This is a security of the very highest class. No doubt if England itself were in danger there might be some difficulty in turning it into cash, but in ordinary times it would be hard indeed to find a sounder asset.

(3) *Other securities*, £5,784,900.

These also are securities of the highest class, such as in ordinary times can be realised immediately.

This amount does not vary from week to week, as do some of the other items of the weekly bank return, although under *certain special circumstances* it may be increased.

Notice the amount of these last two added together (viz., £16,800,000). When the Bank Act was passed in 1844, one of the provisions was that the Issue department might issue notes "*against securities*" to the extent of £14,000,000. It was also enacted, with a view to the gradual extinction of the issue of country banks, that no fresh bank should have the right of issue, that those banks that already possessed the right should be strictly limited in the exercise of it, and that if any

bank should lose the right to issue, it should not be allowed to resume it. In this latter case the Bank of England might increase *its own issue against securities.* In this way it has come to pass that the 14 millions fixed by the Act of 1844 has grown to nearly 17 millions.

You see then that if you have a £5 Bank of England note in your pocket, you need not feel at all anxious. There is excellent security for about £1 13*s.* 4*d.* and actual Gold carefully guarded by soldiers every night for the other £3 6*s.* 8*d.* We will button our pockets up. We shall not need to take our notes to the Bank to-day.

II. BANKING DEPARTMENT.

The *Banking department* of the Bank of England does the work of an ordinary bank; that is, it "takes care of" other people's money. It *uses* a certain portion of that money, and keeps in hand only so much as it thinks fit and necessary.

If I were to make the Bank's balance sheet resemble the balance sheet of an ordinary house of business, I should put it in this familiar form :—

BALANCE SHEET.

LIABILITIES.	*August* 9, 1894.		ASSETS.	
	(MILLIONS)			(MILLIONS)
Debts Payable	42		Investments	19
CAPITAL	17		Government ditto ...	12
			Cash in hand	28
	59			59

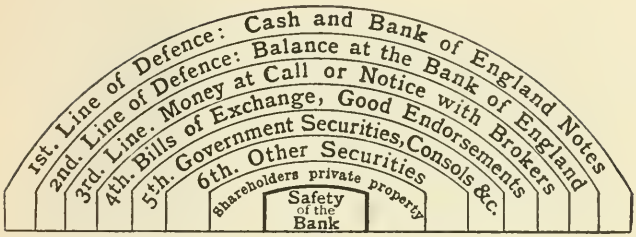
First let us consider the Debts Payable. They are described in the Bank return as (i.) Public Deposits, (ii.) Other Deposits. It has been already pointed out that when any one deposits money in a bank he really lends it to the bank. Bank debts (payable) are always called "*deposits.*" It will be interesting to

know who are the chief depositors in the Bank of England and on what terms they have lent the money. When people lend money they usually expect to get *Interest* for the use of it. Most Bankers will allow Interest on what is called "Deposit Accounts," that is, money deposited on condition that it is not to be drawn out without due notice. Some will even allow a small rate of Interest on the average balances of "Current Accounts," if these balances are sufficiently large to make it worth their while (say over £500). Both classes of accounts are included in the general word "Deposits."

But the Bank of England has never allowed a penny of Interest to any one, not even to their biggest customer, who keeps a running account with a balance of *several millions!* The Bank's biggest customer is the Government of England, who pays into the Bank all the taxes as they are collected. The Government money is called *Public Deposits*, and amounted to the large sum of over 12 millions on March 27, 1895 (see page 207).

All the other deposits at the Bank of England are grouped together under one head, "*Other Deposits*." These consist not only of the balances of ordinary houses of business, but a large proportion (perhaps half) consists of the balances kept at the Bank of England by other large London Banks.

For it is *the custom of English Banks* only to keep just so much actual money in hand as they think will suffice for their ordinary needs in quiet times. Their reserve of Cash is placed in the Bank of England. This forms as it were a second line of defence to guard their citadel. It is much more convenient than keeping a very large stock of Gold, and so confident are they that this money is always immediately available that in times of excitement, when extra caution is desirable, they invariably *increase* the strength of this line of defence by withdrawing money that may be placed at interest elsewhere and increasing their balance at the Bank of England.

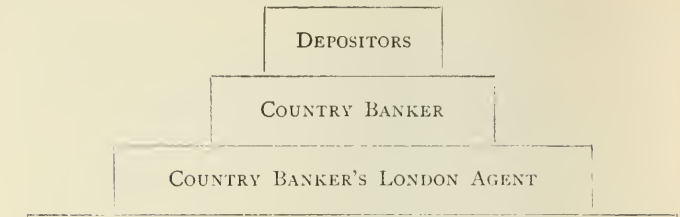

1st. Line of Defence: Cash and Bank of England Notes
2nd. Line of Defence: Balance at the Bank of England
3rd. Line. Money at Call or Notice with Brokers
4th. Bills of Exchange, Good Endorsements
5th. Government Securities, Consols &c.
6th. Other Securities
Shareholders private property
Safety of the Bank

Remember then that this immense item in the Bank return, "*other Deposits*, £37,591,120," consists largely of money placed in the Bank by other bankers for safety and convenience of access.

Now taking the two items "Public Deposits" and "Other Deposits" together, we have an amount exceeding 43 millions. The whole of this vast sum is payable by the Bank *on demand*, and every individual depositor knows perfectly well that the Bank is sustaining this tremendous liability, and yet every individual depositor feels that his money is perfectly safe.

If it were not so—if there were any reason to doubt the stability of the Bank of England—then you and I and every little depositor in the remotest country bank in England would have cause to tremble for our money, for the Bank of England may be said in a very true sense to be itself the foundation of the financial stability of the whole country.

Suppose, for example, that certain depositors in a country bank suddenly wish to withdraw large sums of money from that bank. The bankers, by paying these demands, seriously diminish their own stock of Till money. They therefore send for fresh supplies from their London Agent. The London agent, in his turn, to keep up his own supply of ready cash draws on his balance at the Bank of England.



Thus the whole edifice rests as you plainly see upon the Bank of England. Is it a safe foundation? That we shall see as we proceed with our examination of the other items of the Balance Sheet.

SEVEN DAY AND OTHER BILLS.

Not much need be said about this insignificant amount. These are sometimes called Bank Post Bills. The first instance of their issue on record is contained in a notice issued by the Bank of England in December 1738 as follows: "That upon a representation of His Majesty's Postmaster-General they are ready to give to such as desire it, *bills payable at seven days sight*, that in case of the mails being robbed, the proprietors may have time to give notice thereof."

PROPRIETORS' CAPITAL.

In case the affairs of the Bank of England should ever have to be wound up (!), the ordinary creditors of the Bank would have to be paid *in full* before the Proprietors could receive a penny of their capital. It is therefore one of the secrets of the strength of the Bank that it has so large a capital. The chief object of the capital of a Bank is to give confidence to the depositors. The Capital of the Bank of England is far larger than that of any other bank in the world. It exceeds the united capital of the State Banks of France and Germany.

"REST."

The amount appearing in the Weekly Return under this singular heading must be added to the amount of Capital to show the true strength of the Bank. This item, which amounted to over £3,000,000, in the return given on page 207, consists of undivided profits, and would be called in most Balance Sheets "Profit and Loss Account—Reserve Fund." Of course it belongs to the Proprietors and forms a portion of "Capital." (The word "*Reserve*" is used in quite another sense when speaking of the Bank return, as we shall presently see.) The total Capital of the Bank of England is therefore not far short of 18 millions.

But even this enormous Capital might fail to inspire confidence if the ASSETS of the Bank were of a doubtful or shaky character. Let us examine them and see.

NOTES AND GOLD.

Here is an asset of unequalled soundness to start with. These notes are, of course, notes of the Bank of England itself, but they are the exclusive property of the "Banking department," and have no connection with the Issue department. Now we have already seen how the Issue department is fully able to cash all its own notes on presentation. These notes in the Banking department may be regarded then as being in every respect "as good as Gold." The two items added together form what is called "The RESERVE."

Now so large was this "reserve" on August 9th, 1894, that if every depositor had simultaneously demanded to be paid in full (a most extravagant supposition), the Bank could have at once met a large proportion of these claims, without realising any of their securities. You see the total amount of possible claims is about 43½ millions, and the total amount of "RESERVE" (that is, ready Cash) is just upon 30 millions.

The exact *proportion of Reserve to Liabilities* is a very

important question, and is carefully noted as soon as each of the Weekly returns is issued. The ratio in the return given is roughly—

$$30 : 43\tfrac{1}{2}$$
$$= 60 : 87$$

This however is always brought to a percentage—

$$\tfrac{60}{87} \text{ of } 100 = \tfrac{6000}{87} = 69 \textit{ nearly}.$$

The proportion of Reserve to Liabilities has only exceeded 50 per cent. in recent years. A few years ago 43 per cent. was considered the average.

As all the Banks in the country are dependent on the Reserve, it may be called the *National* Reserve, and it is recognised as a matter of the highest importance that it should be kept up to a certain standard. Its *fluctuations* are accordingly noted with much care, and if they seem to give cause for anxiety, means are at once taken to prevent the anticipated danger.

There are some *ordinary fluctuations* of this Reserve which give rise to no uneasiness, because they are tolerably regular in their action and their causes are well known. Two of these may be noted by way of example.

(*a*) When people pay their Taxes to the Tax-collector in February the money soon finds its way to the Bank of England, helping to swell the Reserve, and at the same time to increase the balance in the Bank books in favour of the Government, which you will remember is called "Public Deposits." Consequently the Reserve usually stands higher at the end of March than at any other time in the year.

(*b*) Large numbers of people take their holidays in August, and as they usually pay their holiday expenses in Notes and Gold rather than by cheque, they draw cash from their bank. The drain falls of course on the national Reserve, and causes

it to sink, but the reason being well known, this does not occasion any anxiety.

It will be interesting now to notice the means taken to stop the outflow of the Reserve beyond the point of safety. Where is the gold to keep up a falling Reserve to come from, and how can it be attracted into the Bank vaults?

The gold must be attracted from abroad, and the magnet is the "**Bank Rate.**"

The "Bank of England Minimum rate of Discount" is the lowest rate at which the Bank will discount high-class bills of exchange. "*Bank rate*" has a very powerful influence on the rates of other Bankers and the rates of Discount Houses, whose business it is to discount bills of exchange. (See Appendix to Lesson XII.)

A High rate attracts money from abroad. A Low rate repels, and (if the rate is lower than that of neighbouring countries) causes a drain on the Bank reserve.

"The fact is," says McLeod, "that bullion dealers are constantly on the watch to take any advantage they can of the weakness of bankers if they sell gold too cheaply, and they want this gold not for the purpose of the internal commerce of the country, as other traders do, but for the express purpose of sending it to be sold in other countries where it has a higher value."

If the Directors of the Bank therefore notice that the Reserve is getting lower than they think safe, they immediately raise the Bank rate and thus check the outward movement.

Government Securities and Other Securities. Turning our attention now to the other assets of the *Banking* department, we find they consist of interest-bearing investments. "Government securities" are investments, the interest on which is paid or guaranteed by the British Government, such as Consols, etc.

The details of their other investments are not known. They include of course Bills, and money advanced on adequate

security. We cannot imagine that any of these assets are of a risky nature, or that they have been in any degree over-valued.

We have seen from this brief review of the Bank's Balance Sheet in how sound a position it stands, and how unequalled is the security afforded to those who have entrusted it with their money.

We have also seen that the result of this gigantic financial strength is that other Bankers prefer to entrust their own reserves to the safe custody of the Bank of England rather than keep very large stocks of money themselves, so that it has come to pass that the stock of money at the Bank of England is in fact (and is recognised as being) the great National Reserve.

SUSPENSION OF THE ACT OF 1844.

You must not suppose however from what we have said that the Bank of England has never been in difficulties. Twice in its history it has had to suspend its *Cash* payments, and three times since the Act of 1844 it has had to apply to the Government for permission to issue more notes than the Act allows.

The three *Panics* of 1847, 1857, and 1866 were the three occasions referred to. A *Panic* is a period of universal distrust, when every one begins to doubt his neighbour's ability to pay, and to demand gold in exchange for his debts. In 1847 many houses of business applied to their bankers for advances to enable them to meet sudden claims of this kind. The Bankers in their turn applied to the Bank of England, and the reserve consequently ran very low. After repeated efforts the Bank obtained from the Government a relaxation of the Act, and the panic at once ceased, for the public knew that the Bank would now be able and willing to make advances in Bank of England notes to any reasonable extent, and the value of the note, remember, had never been in question.

The crisis of 1857 was a much more severe one. The Bank had allowed its Reserve to run as low as two and a half millions (remember what it stands at now !), when the public credit being shaken, this amount was nearly all drawn out in two days, and on Nov. 12th when the cashiers of the Bank of England counted up their money they found they had actually less than half a million left ! Again the Bank obtained permission to exceed the limits of the Act, and the panic soon ceased. Notes were obtained from the Issue department in exchange for Securities from the Banking department, and the reserve which would otherwise have vanished altogether was kept up.

In *May* 1866, occurred the stoppage of the great discount house of Overend, Gurney & Co., with liabilities exceeding ten millions. This produced fear all over the kingdom. Bankers rushed to the Bank to obtain supplies of notes, and it is said that one Bank alone paid away two millions in six hours ! The suspension of the Act enabled the Bank to advance over twelve millions in five days at 10 per cent., and the panic passed away. Bank rate however remained at this exceedingly high figure for three months.

At the present moment (March 1895) Bank rate is only 2 per cent., showing that trade is slack and money plentiful. When business is brisk, money becomes scarce, for it is needed in all kinds of industrial occupations. Then the rate goes up again. At the present time Bankers who have surplus cash which they wish to lend "*from day to day*," can scarcely find any one to take it, and can then only obtain interest at the rate of $\frac{1}{4}$ per cent. per annum, or 5*s.* for the loan of £36,500 for one day !

In the appendix to the next Lesson we shall have to refer to the connection between Bank rate and the Foreign Exchanges.

[NOTE.—Students who wish to pursue this subject are recommended to read Clare's *Money Market Primer*, from which very lucid and interesting treatise many of the materials for the foregoing sketch have been gathered.]

Exercise XI.

In the daily paper for Friday, Dec. 21st, 1894, I find the following information. You are required from it to compile the Bank Return for the week ending *Dec. 12th*, 1894. Also to find the proportion of Reserve to Liabilities for the same week.

"The following is the official return of the Bank of England for the week ending Wednesday, Dec. 19th, 1894:—

ISSUE DEPARTMENT.

Notes Issued... ...	£47,802,000	Government Debt ...	£11,015,100
		Other Securities ...	5,784,900
		Gold Coin and Bullion	31,002,000
	£47,802,000		£47,802,000

BANKING DEPARTMENT.

Proprietors' Capital ...	£14,553,000	Government Securities	£13,189,181
Rest	3,162,214	Other Securities ...	18,697,220
Public Deposits ...	4,742,940	Notes	22,476,895
Other Deposits ...	34,125,835	Gold and Silver Coin	2,360,389
Seven Days' and other Bills	139,696		
	£56,723,685		£56,723,685

"The return shows the following changes when compared with the previous statement:—

Circulation Issue	Decrease ...	330,180
Circulation Active	Increase ...	148,400
Public Deposits	Decrease ...	260,555
Other Deposits	Decrease ...	807,116
Government Securities	Decrease ...	800,000
Other Securities	Increase ...	259,039
Coin and Bullion	Decrease ...	381,057
Seven Days' and other Bills	Decrease ...	8,772
Rest	Increase ...	6,025
Notes in Reserve	Decrease ...	478,580
Total Reserve	Decrease ...	529,457"

LESSON XII

CAPITAL IN BILLS

How "Bills" are used instead of Money. *What Bills consist of, and how to record their INcoming, their OUTgoing, and their actual present value.*

THE ORIGIN OF BILLS OF EXCHANGE.

We shall arrive at a clear idea of the nature of a bill if we first consider the *origin* of Bills of Exchange. McLeod, in his *Elements of Banking*, gives the following illustration :—

> "Two passengers are travelling in an omnibus. The fare is sixpence. One passenger hands the conductor a shilling. The conductor is then indebted to him in sixpence. The other passenger has a sixpence in his hand ready to pay his fare. The conductor by a nod tells him to give the sixpence to the first passenger. By this means the conductor's debt is paid without the trouble of the second passenger handing his sixpence to the conductor and the conductor then handing it to the first passenger as payment of the debt due to him. The whole transaction is an *exchange*."

Now suppose further that the omnibus was a long one, and was crowded with other passengers, the two first named being at the extreme end. The convenience of the transaction effected by the conductor's "nod" is thus considerably emphasised.

Extend the supposition a moment. A. and B. are living in LONDON. Z. is a merchant living in MELBOURNE, having business relations with both A. and B. as shown by his Ledger—

Z.'s LEDGER.

Dr.	**A**	*Cr.*	*Dr.*	**B**	*Cr.*
£1000					£1000

from which it appears that whilst he owes A. £1,000, B. owes him the same amount. Instead of making a "nod" of "exchange," as the conductor did, he writes a "bill" of "exchange" and thus *transfers* the *debt.*

Suppose still further (and thus approach the actual condition of things) that there are in MELBOURNE two merchants Z. and Y. Taking a peep at their books we notice amongst other things the following accounts :—

IN Z.'s LEDGER.

Dr.	**A.** LONDON.	*Cr.*
£1000		

IN Y.'s LEDGER.

Dr.	**B.** LONDON.	*Cr.*
		£1000

One day Z. and Y. meet to confer together about business matters. Y. says: "I want to send £1,000 to London." Z. says: "I have £1,000 to come to me *from* London. Why should we not save the trouble and expense of having the actual coins remitted backwards and forwards (like the sixpence in the crowded omnibus, only much worse) by transferring our debts? I will therefore write to my *debtor* "A.," continues Z., "and ask him to pay to *your creditor* B. the £1,000 which he owes me."

Accordingly Z. writes to A.—

	MELBOURNE,
£1000	*Jan.* 1, 1895.

On demand pay to B. of London One Thousand Pounds.

To A.
London.

Z.
Melbourne.

And this is the simplest form of a "bill" of exchange.

The question may be asked, How is Y. to compensate Z. for the transference of this debt? Z. will perhaps wish to sell his Bill to Y. for £1,000 *plus* something for his trouble, and Y. would be willing to pay something extra, provided always that the extra charge was less than the actual cost of sending the money. This introduces the important subject of *Foreign Exchanges*, a brief sketch of which is given in the Appendix to this Lesson.

It will be seen from what has been said that Bills of Exchange were first used for transferring debts as a convenient means of settling foreign accounts. It has come to pass however that they are now used for many other purposes.

Lawson, in his *History of Banking*, says:—

> "Instruments more perfect than Bills of Exchange for the objects for which they were invented could not possibly be devised or desired. No cumbrous deeds to settle or engross; no lawyer, witness, or travelling expenses; no time lost in completing the security; easily transmitted from one to another; and having in law all the power and validity of the most formal instrument. All these advantages combined make them for all the purposes of commerce better than any other description of security."

The advantages referred to in the foregoing paragraph may be summed up as follows:—

(1) Transfer of debts.

(2) Security for payment of debts.

(3) Legal acknowledgment of debts.

(*a*) As to their exact amount.

(*b*) As to the exact time of payment.

(4) Exchangeability for Cash, whereby the amount of working Capital is increased.

(5) Prompt legal recovery in case of non-payment.

A Bill may be defined as *an unconditional order in writing, to pay a certain sum of money on a specified date* (*or on demand*) *to a specified person* (*or to bearer*). The term "Bill" *legally* includes

(i.) Inland Bills.

(ii.) Foreign Bills.

(iii.) Promissory Notes.

(iv.) Joint Notes.

(v.) Cheques.

though in ordinary commercial language only the first four are included, a depositor's draft on his banker being always spoken of as a "cheque."

EXAMPLE I.—INLAND BILL.

£100. MANCHESTER, *January* 1, 1894.

Stamp
1*s*.

Three months after date pay to me or my order the sum of One Hundred Pounds, for value received.

HENRY F. WATKINS.

To Mr. WILLIAM HOUGH,
London.

The above would be called Watkins's **draft** on Hough: H. F. Watkins has **drawn** *on* William Hough *at* three months *for* £100.

EXAMPLE II.—Foreign Bill.

£1000. New York, *June* 1, 1894.

Foreign Bill Stamp.

Sixty Days after sight pay this my First of Exchange (Second and Third of the same tenor and date being unpaid), to the order of John Jones and Son the sum of One Thousand Pounds for value received.

Abraham Lincoln.

To Messrs. John Jones and Son,
Manchester.

Foreign Bills are usually drawn in sets of three, to avoid inconvenience in case of loss. The words in brackets indicate that *if* the exact counterparts of this bill have already been paid, this one is *not* to be paid.

EXAMPLE III.—Promissory Note.

£150. London, *January* 1, 1895.

Stamp 2*s*.

On demand I promise to pay to Mr. William Robinson or his order the sum of One Hundred and Fifty Pounds, value received, with interest at the rate of five per cent. per annum.

George Makins,
166, Eastcheap.

Payable at the National Provincial Bank of England.

The above note of hand has probably been given in exchange for a cash advance, and bears interest at the rate of five per cent.

EXAMPLE IV.—Joint Note.

£500. Bristol, *March* 1, 1895.

Stamp
5*s*.

Three months after date we jointly and severally promise to pay to Messrs. Isaac Holden and Son, or their order, the sum of Five Hundred Pounds, for value received.

James Collins,
Temple Street, Bristol.
William Cartwright,
Park Farm, Clifton.

Payable at ———

Note.—When two or more parties jointly *and severally* promise to pay, *each* of the parties can be separately sued for the *whole* amount, which can, however, only be recovered once, the party paying then having right of action against the others for their share.

EXAMPLE V.—Blank Cheque with Counterfoil.

No. E 43428.
..... 18 .....
To .....
.....
£ .....

No. E 43428. .....18.....
London & Westminster Bank, Ld.
Head Office.
Pay ..... { or order / or bearer
.....
£

1*d*.

Blank cheques are issued in books of 25, 50, 100 or more by bankers to their depositors. The depositor fills up both counterfoil and cheque, and having signed the latter tears it off at the dotted line and gives it to the party to whom he has made it payable.

Crossed cheques are written across the face thus ☞ & Co. and can then only be paid through a banker. When the name of any particular bank is inserted between the two lines, then payment will only be made through the bank named. This precaution prevents the cheque being cashed by any rogue who should accidentally gain possession of it; for rogues (of the cheque-stealing class) do not usually keep banking accounts. Cheques payable to *order* need *endorsement* (see page 229).

TECHNICAL TERMS.

"*Three months after date*" (m/d). This phrase gives the **term** of the bill, or the length of time it has to run before payment becomes due. "*After date*" means after the date of the "drawing" of the bill. Bills are often made payable so many days or months "*after sight.*" When a bill is drawn at so many "months," calendar months are reckoned, and in all cases of bills drawn "after date," or "after sight," three days, called **days of grace**, are added before we can arrive at the **due date**, that is, the date on which the bill is legally due and may be properly **presented** for payment. For Example :—

A Bill Drawn—				is Due on—
January	1 ...	at 1	Month	February 4.
,,	28 ...	,,	,,	March 3 (or 2 if leap year).
,,	31 ...	,,	,,	,,
February	28 ...	,,	,,	March 31.
March	31 ...	,,	,,	May 3.

But bills falling due on a Sunday are payable on the preceding Saturday, and those falling due on a Bank holiday are payable on the day after.

"**Usance**" is the term usually allowed by merchants when drawing bills on any particular country. The person who signs a Promissory Note is called the **Maker** of the Note. The person who draws a bill is called the **Drawer**, the person on whom the bill is drawn is called the **Drawee**, and the bill is called a **Draft**. In Example I. Watkins is the Drawer and Hough is the Drawee. The Instrument is called Watkins's *Draft*.

The **ad valorem duty** (duty according to value) on Bills is payable by means of stamps, as follows :—

If less than £5	..	...	..	...	Stamp	1*d.*
Exceeding £5	and not exceeding		£10	...	,,	2*d.*
,, 10	,,	,,	25	...	,,	3*d.*
,, 25	,,	,,	50	...	,,	6*d.*
,, 50	,,	,,	75	...	,,	9*d.*
,, 75	,,	,,	100	...	,,	1*s.*
,, 100	,,	,,	200	...	,,	2*s.*

and so on. But bills *on demand* only require 1*d.* stamp.

When a bill has been drawn, it is usual for it to be "presented," or sent to the Drawee for his "**Acceptance**." The drawee accepts the bill by writing the word "**accepted**" across the face of the bill, together with his own name, thus :—

EXAMPLE VI.—ACCEPTANCE.

(See Example I.)

£100. MANCHESTER, *January* 1, 1894.

Stamp 1*s*.

Three months after date pay to me, or my order, the sum of One Hundred Pounds, for value received.

HENRY F. WATKINS.

Accepted WILLIAM HOUGH.

To Mr. WILLIAM HOUGH, London.

Mr. Hough is called the *acceptor*, and the document may now be called either Hough's "acceptance" or Watkins's "draft." The term "acceptance" is used to signify either (1) the act of accepting a bill, or (2) the document itself. In this latter sense the abbreviation **a/ce** is often used.

When the above bill falls due, the **holder** of it will have to seek out William Hough at his usual residence or place of business and **present** it for payment. To avoid this inconvenience (to both parties), the acceptor may perhaps prefer to make the bill payable at his bankers. This is called **domiciling** a bill, and is the course almost invariably adopted, as shown in the next example.

EXAMPLE VII.—ACCEPTANCE, DOMICILED.

£250. LONDON, *March* 1, 1894.

Stamp. 3*s*.

Three months after date pay to us, or our order, the sum of Two Hundred and Fifty Pounds, for value received.

E. MATHER AND WILKINSON.

Accepted—Payable at Bank of England. E. BRIGGS.

To Mr. E. BRIGGS, Manchester.

If E. Briggs has an account at the Bank of England, the above acceptance constitutes an order on the banker to pay the bill at **maturity**. If not, he must send the money (a day or two before the due date) through some other bank, perhaps through the Manchester branch of the Bank of England. This is called **advising** the bill.

A **qualified acceptance** is that which is given when a bill is made payable at a particular place "*and there only.*"

The words "*or order*" signify that the party to whose order the draft is made payable must sign his name on the back before payment can be made. This is called **endorsing** the bill.

Endorsements may be **blank** or **special**. A *blank* endorsement is made when the **endorser** simply writes his own name on the back of the bill. If, however, he wishes to transfer his own interest in the bill to some special person, he writes—

Pay A. B. & Co. or their order.
W. Smith.

and the endorsement is called *special*. The party to whom the bill is thus transferred is called the **endorsee**.

A bill is often covered with "special" endorsements, thus—

See page 246.

Pay A. B. and Co. or their order . . . . (2)
W. Smith . . . . . (1)
Pay Eastern Ironwork Company or order . . . (3)
A. B. and Co. . . . . . (2)
Pay London Discount Company, Lt., or order . . (4)
Eastern Ironwork Company . . . . . (3)
Pay J. Rogers or order . . . . . (5)
London Discount Company, Lt. . . . . (4)
J. Rogers . . . . . (5)

(Notice the successive links in the above chain.)

If the "acceptor" of a bill endorsed as above fails, the "holder" can recover the money from any one of the "endorsers." The endorser who has thus been made to pay what he never really owed can in his turn recover from any of the other endorsers who come before him, unless they have endorsed the bill **sans recours**, that is, have added the words "*without recourse to me*," by which means they avoid the special form of *contingent liability* just described.

When a bill is due, it is said to be **mature** (ripe), or to have *arrived at* **maturity**. It is then the duty of the holder (or legal possessor) to present it for payment. This must be done by taking it in person, or sending it by post or through a banker, to the place where it has been domiciled and asking for the money. The person who pays the money (or **contents**

of the bill) is called the **payer**, the person to whom it is to be paid the **payee**. If paid when due, it is said to be **duly paid**. Or it may be said to be **honoured**, or **met**, or **taken up**.

When a bill is not paid on due presentation, *or when the drawee declines to accept on presentation made for that purpose*, in either case the bill is *dishonoured*.

If the bill is made payable "*after sight*," the drawee, when accepting, puts the date of acceptance. This is called **sighting the draft**, and the specified "term" begins to run from this date.

A **sight draft** is a draft made payable at sight or "on demand."

When a bill is dishonoured it is taken to a legal officer called a public notary, to be again presented and the fact of its non-payment **noted**. If the holder contemplates legal proceedings against any of the parties, a further legal process, called **protesting**, is necessary.

When a depositor draws a cheque on his banker for an amount larger than he has provided for, the banker returns the cheque to the party presenting it, marking on it the words "*refer to drawer*," and the cheque is said to be dishonoured.

When a bill that has not been *advised* (and provided for) is presented for payment at a bank, it is returned marked "*no orders*."

Bills are seldom retained by the holders until maturity (unless the holders happen to be dealers in bills or bankers). They are usually handed over to a banker or bill-discounter, who gives cash or credits the endorser in exchange, charging a small percentage for risk and loss of interest. This charge is called *discount*, and the operation is called **Discounting the bill**. Confusion sometimes arises in the minds of learners from the fact that both of the parties to a transaction of this kind are said to "discount the bill." A. B. discounts the bill with his banker, and the banker discounts the bill for A. B. Students will be on their guard against this source of error.

The acceptor of a bill may wish to "*take it up*" *before it is due*. If he knows where the bill is, he asks the holder to allow him something for the advantage of prepayment. This allowance is called **rebate**, and the operation is called **retiring** the bill.

To **renew** a bill is to exchange a bill just due for a new one between the same parties, which has the effect of granting the payee an extension of time.

If a foreign correspondent is not quite sure of the willingness or ability of his drawee, he sometimes adds the words "**In case of need** apply to A.B., 101 Leadenhall Street, E.C." (A.B. being some house of business to whom he is well known as a man of probity and financial ability). He will then write to A B. and ask him (if necessary) to "*protect his signature*" by accepting the draft, so that it should not in any case be said in commercial circles that a draft of his had been dishonoured.

The words "*for value received*" are inserted in a bill to *indicate* that a proper consideration has been given for a bill. The words themselves are not legally necessary, nor is their omission of any consequence. But the *fact* that a valuable consideration has been given for the bill *is* of importance, and affects the validity of the bill.

Perhaps you may ask, "Whoever would give a bill without receiving value?" Very many people. For a bill is such a useful instrument for the extension of *credit*, that many people oblige or accommodate one another by exchanging bills. "A.," for example, says to "B.," "You draw on me for £1,000 and I will draw on you for the same amount. We will each accept one another's drafts. We can then *discount* these *acceptances* at our own Bankers' and use the money in trading. Long before the bills fall due we shall have sufficient in hand to meet them, and who will be any the wiser?" B. agrees to these insidious proposals, and a couple of **accommodation bills** are thus put on the market. This perilous operation is popularly known as "KITE FLYING."

TRANSACTIONS INVOLVING BILLS.

HOW TO ENTER THEM.

All transactions involving Bills may be entered by the simple IN and OUT rule, if we remember to regard Bills as pieces of *Property*.

Bills are divided into two classes:—

(i.) *Bills Receivable*, or those bills which the merchant holds and hopes to get the money for.

(ii.) *Bills Payable*, or those bills which the merchant has granted, and will either have to pay or take the consequences.

Bills Receivable come IN first and go OUT afterwards. They come IN when they are drawn and accepted or endorsed to us. They go OUT when they are paid (met, honoured), discounted, dishonoured, renewed, or endorsed away (by us).

Bills Payable go OUT first and come IN afterwards. They go OUT when drawn and accepted. They come IN (returning to us, like Postal Orders to the Post Office) when paid, retired, dishonoured (!), or renewed.

The above facts may be retained in the memory by the help of the following table :—

BILLS may be		B. R.	B. P.
I.	Drawn and accepted... ...	IN	OUT
II.	Endorsed to us	IN	—
	,, by us	OUT	—
III.	Duly paid	OUT	IN
IV.	Discounted	OUT	—
	Retired	—	IN
V.	Dishonoured	OUT	IN
	Dishonoured after discounting	—	—
	Renewed	IN & OUT	IN & OUT

I. BILLS DRAWN AND ACCEPTED.

A. B. having bought Goods of X. Y. value £500, wishes to pay for them by means of a bill. He may either give X. Y. his Promissory Note for the amount, or may allow X. Y. to draw on him. In the latter case he will signify his agreement to this draft by accepting it.

Here are the Ledger entries as they stand in the books of the respective parties.

A. B.'s LEDGER.

Dr.	GOODS.	*Cr.*
To X. Y. £500		

Dr.	X. Y.	*Cr.*
To Bill @ 3 m/d £500	By Goods £500	

Dr.	BILLS PAYABLE.	*Cr.*
	By X. Y. £500	

From A. B.'s point of view the two transactions might have been represented thus :—

(i.) Goods IN X. Y. OUT

(ii.) X. Y. IN B. P. OUT

and the Journal entries would of course have been—

(i.) Goods *Dr.* To X. Y.

(ii.) X. Y. *Dr.* To B. P.

X. Y.'s LEDGER.

Dr.	GOODS.	*Cr.*
	By A. B. £500	

Dr.	A. B.	*Cr.*
To Goods £500	By Bill @ 3 m/d £500	

Dr.	BILLS RECEIVABLE.	*Cr.*
To A. B. £500		

From X. Y.'s point of view the steps are as follows :—

(i.) A. B. IN Goods OUT
(ii.) B. R. IN A. B. OUT

and the Journal entries are—

(i.) A. B. *Dr.* To Goods.
(ii.) B. R. *Dr.* To A. B.

Notice that the same bill is called a Bill Receivable by X. Y. and a Bill Payable by A. B. Notice also that the drawing and acceptance of a bill are not usually regarded (from the bookkeeper's point of view) as two distinct transactions, but as one. Together they form the initial stage in the history of a bill, and call for the first entries of that bill in the books.

(Here work out Exercise XII.)

II. BILLS ENDORSED TO OR BY US.

(*a*) A. B. C. desires to settle his account with X. Y. Z. by transferring to him his interest in an acceptance of M. N.'s of which he is at present the holder. This is done by A. B. C. endorsing the bill to X. Y. Z. in the manner already explained. He then hands the bill to X. Y. Z., and by this very simple process the latter at once becomes the legal owner. The transaction is recorded in opposite ways in the books of the parties concerned.

A. B. C.'s JOURNAL.

X. Y. Z. *Dr.*	£500	
To Bill Receivable . . .		£500

For M. N.'s acceptance (due——) endorsed to X. Y. Z.

X. Y. Z.'s JOURNAL.

Bills Receivable *Dr.* . . .	£500	
To A. B. C.		£500

For M. N.'s acceptance endorsed to us by A. B. C.

(*b*) Notice that both parties to the above transaction call the bill in question a Bill *Receivable*. It is quite possible however

that a Bill *Payable* may return to its acceptor as an ordinary remittance. Suppose for example that W. Brown has occasion to make remittances to John Jones, and that included in a remittance of £1,000 is one of Jones's own acceptances for £250. This bill might be *passed through* Bills Receivable account in Jones's Ledger.

Jones thus treats his own acceptance as a Bill Receivable until due, on which date he makes a transfer entry, transferring it from B. R. account to B. P. account. It might however be treated at once as a B. P., in which case he would simply Journalise thus :—

Cash, *Dr.*	£750	
B. P.	250	
To W. Brown		£1,000

(*c*) A. B. may undertake to discount a Bill *for* a customer C. D. (see page 230). Then C. D. endorses the bill to him, and A. B. journalises as follows :—

Bills Receivable, *Dr.* . . .	£1,000	
To Cash.		£990
To P. and L.		10

(Here work out Exercise XIII.)

III. BILLS DULY PAID.

When a bill is paid on the due date, the holder of the bill delivers it up to the acceptor in exchange for the Cash (endorsing it before doing so).

For example, A. B., being the holder of a bill on C. D., presents it on the due date, and finds that the bill has been properly provided for. He therefore receives the cash from the bank (where the bill was *domiciled*), or, as is more probable, a

credit in the books of his own Banker with whom he lodged the bill **for collection** a few days previously to the due date.

Now A. B.'s Banker does not credit A. B. with bills that are merely left with him for collection *until they have been presented and actually paid*, that is, until A. B.'s banker has himself received a credit from the bank where the bill was domiciled. And for this reason it will be unwise for A. B. to debit his Banker (or in other words his Cash account) until he ascertains that the "contents" of the bill have been passed to his credit by the Bank. Otherwise he may think he has more funds at his disposal than he really has, and may inadvertently overdraw his account. He therefore (if his bill transactions are sufficiently numerous) opens a temporary account in his Ledger :—

Dr.	BILLS SENT FOR COLLECTION.	*Cr.*
Lodged at Bank—		
No. 101	£250	
,, 102	500	
,, 103	700	
&c., &c.		

and this account he debits when sending his bills to the bank (crediting B. R. account). Afterwards, when he has ascertained that the bill is paid, he credits the above temporary account (debiting Bank account).

In some cases no such account as the above is needed, in others its place is supplied by a memorandum.

Taking the transactions—

Jan. 2. *Lodged at Bank for collection B. R. No.* 1 £750

,, 4. *B. R. No.* 1 *duly paid* 750

I might either make the two Journal entries—

Bills for Collection *Dr.* To B. R. *Cr.*

Cash *Dr.* To Bills for Collection *Cr.*

or one Journal entry only—

Cash *Dr.* To B. R. *Cr.*

Notice carefully—

(i.) When a bill is duly paid, if a B. R. it goes OUT, if a B. P. it comes IN.

(ii.) When a bill is duly paid, *no entry to a personal account* is needed in the books of either of the two parties. It is an exchange of two pieces of property (the Cash and the Bill) and is either

CASH IN BILL OUT
or
BILL IN CASH OUT

(Here work out Exercise XIV.)

IV. BILLS DISCOUNTED AND RETIRED.

One of the chief advantages of a bill is that it may be **negotiated**. A bill is said to be "negotiated," either when it is paid away to another party in trade, or when it is discounted at a banker's or bill discounter's. When no convenient opportunity occurs of transferring a bill to another merchant it is usually discounted. Very few persons (except those whose business it is to *deal* in bills) retain them in their own possession until maturity. The usual custom is to discount them as fast as they come IN.

Let us suppose that John Smith, a merchant, has a bill of £400 due three months hence which his bankers agree to discount for him at the rate of 2 per cent. per annum. (Such a low rate as this can only be obtained in quiet times, and then only on bills of the highest class.) £2 for £100 = £8 for £400 for one year = £2 for £400 for a quarter of a year. The discount, then, is £2, and the entries are—

JOHN SMITH'S BOOKS.

Dr. CASH. *Cr.*

To B. R. No. 101	£400	By Discount	£2

Dr. BILLS RECEIVABLE. *Cr.*

To Bill, No. 101	£400	By B. R. No. 101	£400

BANK LEDGER.

Dr. BILLS RECEIVABLE. *Cr.*

To Balance (say) ...	£115,000
,, B. R. No. 3,741...	400

Dr. JOHN SMITH. *Cr.*

To Amount (say) ...	£1,100	By Amount (say)... ...	£1,750
,, Discount	2	,, B. R. 3,741	400

Dr. PROFIT AND LOSS. *Cr.*

By Sundry Discounts (say) (including John Smith's £2)	£800

The Balance on the *Dr.* side of B. R. account in the bank books consists of the total amount of Bills we suppose the

Bank to hold. The balance in John Smith's B. R. account consists of this one bill only, as we suppose that all other bills have been immediately discounted by him.

John Smith could have made an entry in his Cash Book as under :—

Dr.	CASH BOOK.		*Cr.*
	Dis.	Cash.	
	£	£	
B.R. 101	2	398	

He prefers to put it the other way in order to make his own books coincide with the entries in the Bank Pass book (see page 187)

When a bill that has been discounted is "duly paid" (by the acceptor to the one who then holds it), the original holder of the bill *makes no entry in his books*, for it makes no alteration in any of his assets or liabilities, and is not therefore (so far as *he* is concerned) a "transaction."

It does however affect his "*contingent liabilities*," for it must be remembered that he has endorsed the bill to his banker or bill discounter, and has thereby become liable *in the event of the drawer and acceptor failing*. The method of dealing with this question will be shown presently.

Notice that it is only Bills Receivable that can be discounted. Bills Payable have gone OUT of our possession (from the moment of their creation), and to speak of discounting them would be an absurdity.

If however the acceptor of a bill (or maker of a Pro Note) chances to know, or cares to take the trouble to ascertain, who is its present holder, he may express to him his wish to pay it off before it arrives at maturity, on consideration of an allowance made according to the time yet to elapse, the amount of the bill, and the current rate of discount. This allowance (see

page 230) is called *rebate*, and the operation is called *retiring* the bill.

If A. B. retires his acceptance in favour of C. D. for £500 on being allowed a rebate of £3, the entries in the respective books would be as below :—

A.B.'s BOOKS.

Dr. CASH BOOK. *Cr.*

			My Acceptance retired...	£ 3	£ 497

Dr. BILLS PAYABLE ACCOUNT. *Cr.*

C.D.'s Draft		£500	Balance (say)		£3,000

C.D.'s BOOKS.

Dr. CASH BOOK. *Cr.*

		Dis.	Cash.
		£	£
B.R. No. ...		3	497

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

To Balance (say) ...	£1,000	B.R. No.		£500

(Here work out Exercise XV.)

V. BILLS DISHONOURED OR RENEWED.

(*a*) A. B. holds an acceptance of C. D.'s for £1,000, which he duly presents (either personally or through his banker) at the place where domiciled, and it is returned to him marked "*No orders*" or "*Refer to drawer.*" The exact phrase is of little consequence ; the meaning is that the bill is *dishonoured.* There will also be found attached to the bill a little memorandum of the expenses incurred, which A. B. will either have to pay in Cash or for which he will find himself debited in his Bank pass book.

A. B. makes the following entries in his Ledger :—

Dr. C. D. *Cr.*

Bill Returned	£1,000			
Expenses	1			

Dr. BILLS RECEIVABLE. *Cr.*

		C. D.'s Acceptance ...	£1,000

Dr. CASH. *Cr.*

		Expenses on C. D.'s Acceptance	£1

This deserves some attention, because it seems at first sight to contradict the IN and OUT principle which we have found so useful a guide hitherto. For is not the Bill returned to A. B., and ought not A. B. therefore to regard it as Bills Receivable

IN? The explanation is this—that the *value* of the bill as part of A. B.'s available assets has gone OUT. A. B. therefore credits Bills Receivable account, and debits C. D. Responsibility has now come IN to C. D.'s own personal account, and you will remember (Lesson IV.) that we debit an account when we wish to record an increase of its responsibility towards the proprietor. It does not follow that A. B. sends the bill to C. D. He probably writes to C. D. expressing surprise at what he presumes is an unaccountable oversight, and requesting an immediate remittance in settlement. It is the duty of C. D. on receiving this notification of the dishonoured bill to make certain entries in his own Ledger.

C.D.'s LEDGER.

Dr.	BILLS PAYABLE.		*Cr.*
To No. 19 Returned ...	£1,000	By Balance (say) ...	£6,000

Dr.	P. AND L.		*Cr.*
To Expenses on B.P.... ...	£1		

Dr.	A. B.		*Cr.*
		By B.P. 19 and Expenses	£1,001

☞ (*b*) A. B. may have received the above acceptance of C. D.'s from E. F. In that case *he looks to E. F. for the money*, and debits him (instead of C. D.). E. F. in his turn debits C. D. and credits A. B.

(*c*) Suppose that A. B. has endorsed the bill away (in discounting it or otherwise); he will then, on receiving notification of its dishonour, make no further entry in Bills Receivable account, but will *credit* the party to whom he endorsed the bill (probably the Bank) and *debit* the party from whom he received the bill.

To make this clear take the following example: *Cartwright* is a merchant who has received an acceptance of *Andrews* from another business house, *Barton & Co.* He endorsed this bill over to *Dobson* in part payment of his account, and *Dobson* discounted the same with *Emerson*, who held the bill till maturity, when it was dishonoured.

Then the following chain of entries is forged in successive links :—

Emerson debits Dobson (and credits B.R. and Cash).

Dobson debits Cartwright (and credits Emerson).

Cartwright debits Barton (and credits Dobson).

Barton debits Andrews (and credits Cartwright).

Andrews debits B.P. and P.and L. (and credits Barton).

E debits D
D debits C
C debits B
B debits A
A debits { B.P. and P.&L.
A credits B
B credits C
C credits D
D credits E
E credits { B.R. and CASH

each party thus throwing back the responsibility in turn *on the one just preceding him*, until at last it rests on the shoulders of the right man.

Accordingly the entries in Cartwright's Ledger would be :—

Dr.	DOBSON AND CO.	*Cr.*
	By Bill and Expenses ... £1,001	

Dr.	BARTON AND CO.	*Cr.*
To Bill and Expenses ... £1,001		

Notice that the £1 for expenses does not appear in Cartwright's "P. and L." account at all. That goes *with the rest of the responsibility* until it finds its way to the unfortunate Andrews, who must perforce debit *his own P. and L.* as a loss caused by *his own improvidence.*

Consider now for a moment the position of such a merchant as Cartwright, through whose hands a number of bills pass in the course of the year. He never knows what bills may be thrown back on his hands in this way. By putting his name on the back of these bills he has made himself liable in the contingency of the bill being dishonoured. Quite true ; but in each of these cases he has his remedy in debiting some one else, so that if he has £4,000 worth of *Contingent Liabilities*, he has also £4,000 worth of *Contingent Assets.*

If it is considered desirable to show this Contingent Liability in the Ledger, we debit an account called *Contingent Assets* and credit an account called *Contingent Liabilities* for the amount of bills *not yet matured* that we have endorsed away.

Such accounts are only needed at balancing time, in order to show the state of affairs in the Balance Sheet with all possible

completeness. They are therefore closed again immediately after balancing.

Bills may be **renewed** (*a*) to save their being dishonoured, (*b*) after having been dishonoured. Suppose that A. B. has an acceptance of his own in favour of C. D. falling due on March 15. On the 12th he examines his financial position and finds that he will have some difficulty in providing for the bill. Accordingly he applies to C. D. for a renewal of the bill for any term that may be agreed on—say two months. If he can satisfy C. D. that his present embarrassment is only temporary C. D. will probably grant his request. He will draw on A. B. for the same amount as before *plus* Interest and cost of stamp, and on A. B.'s accepting this new draft and handing it to him, he will himself take up A. B.'s old acceptance to save its honour.

A. B.'s JOURNAL.

C. D., *Dr.*	£	100	0	0			
P. and L., *Dr.*			10	0			
To Bills Payable .					£	100	10	0
(For B. P. No. 17 renewed and interest.)								
Bills Payable, *Dr.* .	£	100	0	0			
To C. D., *Cr.* . .					£	100	0	0
(For B. P. No. 18 taken up by C. D.)								

C. D.'s JOURNAL.

Bills Receivable, *Dr.*	£	100	10	0			
To Cash					£	100	0	0
To P. and L. . .							10	0

We have assumed in the above example that C. D. had already discounted the bill, and has therefore redeemed it by sending his cheque for the amount to the bank where it was domiciled.

Perhaps C. D.'s cheque was drawn as follows :—

No. E 4261. LONDON, *March* 13, 1895.

London & Westminster Bank, Limited.

Pay A.B.'s acceptance to me 3 m/d due March 15, *with bill attached, if regular*, One Hundred Pounds.

£100. C.D.

Then the Banker's clerk would look through the bills presented for payment on that day, and finding one that appeared to agree, would examine it to see if there was any **irregularity** about it.

Suppose for instance that the last holder had endorsed it "W. Johnstone," and that the previous holder had endorsed it—

Pay Messrs. Johnstone & Co.
J. Smith.

the bill would be returned to the party presenting it marked—

"*Endorsement irregular*";

but if no irregularity was detected, the bill would be attached to the cheque, and would be "*paid*," that is to say, the party presenting it would be credited in the bank books, and C. D. would be debited from his cheque. In due course both cheque and bill find their way back to C. D., who hands A. B. his own old acceptance.

(*b*) But a bill may be renewed *after* dishonour.

Suppose A. B. had neglected to make the little arrangement described above, and had allowed the due date to pass unnoticed, then on the 16th or 17th he would have received advice of the dishonour of his bill from C. D. accompanied by a statement that his account had been debited with the unpaid bill *plus expenses*, and a peremptory request that he would take immediate steps to set the matter straight.

A. B. must now take a little trouble. Perhaps he thinks a personal visit advisable. He betakes himself to C. D.'s office and with apologies and explanations begs the favour of a *renewal* of the bill. As I said before, C. D.'s reply altogether depends on his estimate of A. B.'s position and good faith. Supposing him to be favourably impressed he grants the request, not forgetting of course to make out the new bill for the original amount *plus* expenses, *plus* interest, *plus* cost of stamp. Having obtained this new bill, he immediately discounts it at his own banker's at a somewhat lower rate than he charged A. B., the difference appearing in his P.&L. account as profit. The whole series of transactions is exhibited thus in—

C.D.'s LEDGER.

Dr. CASH (*i.e.* BANK). *Cr.*

	£	s.	d.		£	s.	d.
Bill No. 93 Discounted	100	11	6	Bill No. 79 Dishonoured	100	1	6
				Discount (charged by Bank) on Bill No. 93	0	5	0

Dr. A. B. *Cr.*

	£	s.	d.		£	s.	d.
Bill No. 79 Dishonoured	100	1	6	Bill at 2 Months No. 93	100	11	6
Charges	0	10	0				
	100	11	6		100	11	6

Dr. BILLS RECEIVABLE. *Cr.*

	£	s.	d.		£	s.	d.
B.R. No. 93	100	11	6	No. 93 Discounted ...	100	11	6

Dr. PROFIT AND LOSS. *Cr.*

	£	s.	d.		£	s.	d.
To Bank Discount ...	0	5	0	Interest A. B.... ...	0	10	0

(Here work out Exercise XVI.)

BILL BOOK.

Hitherto we have treated all entries of bills as though they were made direct into the Journal, and this is undoubtedly the best plan when dealings with bills are few and far between, but if they are at all frequent it is better to keep two "Bill Books," one for Bills Receivable and one for Bills Payable.

These books should be regarded, like the Cash Book, as off-shoots from the Journal, the entries therefrom being posted to the individual accounts of the parties from whom the bills were received or to whom the bills were delivered, and the totals being posted at suitable intervals to the general account of B. R. or B. P. in the Ledger.

FORM OF BILLS

1	2	3	4	5	6	7
No. of Bill.	When Recd.	To whose Credit.	By whom Drawn.	On whom Drawn.	To whom Payable.	Where Payable.
1	1895 Jan. 1	Roberts & Co.	Ourselves ...	Roberts & Co.	Ourselves	Glyn & Co.
2	,, ,,	James & Co....	James & Co.	Thomson	Ourselves	City Bank
3	,, 3	Waters & Co. .	Baker & Co.	Porter ...	Waters & Co.	London & Westminster
4	,, 5	Wilson ...	Wilson ...	(Pro note)	Ourselves .	B. Linen Co., Glasgow
5	,, ,,	E. Matthews...	Abrahams ...	Ellerman	Ourselves .	Bank of England
6	,, 10	J. Quilter ...	Masters ...	Norton ..	Masters ...	Lond. & County Bank
7	,, 12	G. Clare ...	Ourselves ...	G. Clare	Ourselves .	N. P. Bank
8	,, 19	G. Bird ...	Foster ...	Prescott .	Alexander	Prescott & Co.
9	,, 21	McLeod & Co.	Ourselves ...	McLeod & Co.	Ourselves	Coutts & Co.
10	,, 29	J. Brown ...	J. Smith ...	Ourselves	.....	Union Bank

It will be seen that the B. R. Book sets out in tabular form all the essential particulars of each bill. Taking the columns in order, we notice :—

(1) Column 1 is appropriated to the numbers of the bills, each one being numbered consecutively for convenience of reference.

(2) Column 2 gives the date of the receipt of the bill, which is also of course the date on which the entry is made in the Bill Book.

(3) Column 3 gives the name of the party to whose credit the bill has to be posted in the Ledger. [This column is sometimes inappropriately headed "*From whom received.*" But a bill may be received from Jones (for example) *on Smith's account.* It must be treated therefore as if received from Smith, that is, placed to Smith's credit.]

(4) Column 4 gives the name of the party by whom drawn. "Ourselves" signifies the names of the proprietors of the Bill Book in question.

RECEIVABLE BOOK.

8	9	10	11	12			13
Date of Bill.	Term.	Due Date.	Ledger Folio.	Amount.			How and when Disposed of.
				£	s.	d.	
Jan. 1	3 Months ...	Apr. 4	17	100	0	0	
,, ,,	2 Months ...	Mar. 4	182	250	0	0	
,, ,,	1 Month ...	Feb. 4	77	80	0	0	
,, 4	2 Months ...	Mar. 7	31	120	0	0	
,, 5	3 Months ...	Apr. 8	227	500	0	0	
,, 9	21 Days' sight ...	Feb. 2	16	200	0	0	
,, 10	3 Months ...	Apr. 13	92	167	10	6	
,, 18	1 Month ...	Feb. 21	124	83	11	9	
,, 20	4 Months ...	May 23	33	150	0	0	
,, 15	1 Month ...	Feb. 18	57	50	0	0	Contra a/c B.P.
Bills Receivable Account *Dr.*		... ...	...	1,701	2	3	

(5) Column 5 gives the name of the *Drawee*.

(6) Column 6 gives the name of the *Payee*, which will in most cases (except in the books of bankers and bill discounters) be "ourselves."

(7) Column 7 gives the name of the bank where the bill has been domiciled.

(8) Column 8 gives the date of the bill, that is, the date on which the bill was drawn.

(9) Column 9 gives the term of the bill.

(10) Column 10 is calculated from the two preceding columns and allows for the three days of grace.

(11) Column 11 is purposely placed next to the amount for convenience of posting.

(13) Column 13 shows how and when the bill was disposed of.

POSTING OF BILLS RECEIVABLE BOOK.

(i.) The various items in B. R. book must be posted to the credit of the individuals whose names are indicated in column 3.

(ii.) The totals of B. R. book must be posted periodically to the debit of B. R. account. This may be done in two ways :—

(*a*) In lump sums as follows :—

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

		£	*s.*	*d.*			
Jan.	To Sundries...	1,701	2	3			

(*b*) In detail as follows :—

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

		£	*s.*	*d.*			
Jan.	To Bill No. 1 ...	100	0	0			
	,, 2 ...	250	0	0			
	,, 3 ...	80	0	0			
	&c.						

When the number of bills is small the latter plan is preferable, as it shows clearly what the balance of B. R. account consists of, and conduces to clearness and accuracy, for no amount should appear on the *credit* side that has not previously appeared on the *debit* side.

For instance, this state of affairs would be intelligible enough :—

Dr.	BILLS RECEIVABLE.	*Cr.*
£		£
200		300
300		500
400		
500		

indicating that two bills (£200 and £400) still remain in the proprietor's hands.

But an account of this kind :—

Dr.	BILLS RECEIVABLE.	*Cr.*
£		£
200		750
300		
400		
500		

would be unintelligible, as there is no amount (or combination of amounts) on the *Dr.* side corresponding with the £750 on the *Cr.* side.

The posting of the *totals* is usually done through the medium of the Journal (see page 84).

BILLS PAYABLE

All domiciled by me at my

1	2	3	4	5	6
No. of Bill.	When Accepted.	By whom Drawn.	Place.	To whom Payable.	To whose Debit.
	1895				
1	Jan. 1	J. Smith ...	Liverpool .	J. Smith ...	J. Smith
2	,, 3	J. Jones ...	Leeds ...	J. Jones ...	E. Wilson
3	,, 5	E. Wright .	Sheffield ...	E. Wright ...	Elder & Co.
4	,, 6	R. Tod ...	Paris	Credit Lyonnais ...	R. Tod
5	,, ,,	W. Morton . &c.	Hamburg ... &c.	H. Bensberg . &c.	W. Morton &c.

NOTES ON BILLS PAYABLE BOOK.

Column 2 gives the date when accepted, which is also the date of entry.

Column 4 gives the place *where* the bill is drawn.

Column 6 gives the name of the party to whom the bill has been granted.

Column 9 gives the due date (including days of grace), this being calculated from the day of acceptance in the case of "after...sight" drafts.

Column 12 shows how disposed of—whether duly paid, retired under discount, renewed, &c. The other columns need no special remark.

A Column is sometimes ruled to show "In whose Hands," *i.e.* who presents the bill for acceptance.

Notice that there is no special column for "where payable" as it is assumed that we domicile all our own acceptances at our own Bank.

(Here work out Exercise XVII.)

BOOK.

own Banker's (see page 228).

7	8	9	10	11	12
Date of Bill.	Term.	Due Date.	Ledger Folio.	Amount.	How Disposed of.
				£ s. d.	
Dec. 30	1 Month ...	Feb. 2	17	75 0 0	Duly paid, Feb. 2
Jan. 1	3 Months ...	Apr. 4	89	176 10 6	
,, 1	2 Months ...	Mar. 4	116	135 12 0	
,, 3	3 Mo. sight.	Apr. 9	37	200 0 0	
,, 20	2 ,, ,,	Mar. 25	22	150 0 0	
&c.	&c.	&c.	&c.	3,720 0 0	
Bills Payable Account *Cr.* ...			...	4,457 2 6	

POSTING BILLS PAYABLE BOOK.

(i.) The items must be posted to the debit of the individual accounts named in column 6.

(ii.) The totals must be posted periodically to the credit of Bills Payable account.

N.B.—No amount should appear on the debit side of this account that has not previously appeared on the credit side (see page 251).

DIARY

A book of the utmost importance to all who deal in Bills is a *Diary of Bills Payable and Receivable.* This is an ordinary Diary ruled in any pattern with a printed heading for each day of the year. If a merchant forgets to enter a B. P. in his Diary, the due date may come and go and his credit receive

irretrievable damage through the bill being dishonoured. If he forgets to enter a B. R. he may forget to *present* the bill on the due date; he then loses his right of action as against all the endorsers of the bill, and can only proceed against the acceptor. Even if he discounts all his bills receivable, a Diary is useful, as it shows him what bills are maturing from time to time, and thus enables him to see how he can best make timely provision for his own current liabilities.

The Diary forms no part of the system of Double Entry Bookkeeping, that is to say, the books will PROVE quite as well without it as with it; but it will not do to think that it can be neglected with impunity. It is the duty of the clerk who enters up the Bill books to enter up the Diary *at the same time.*

Take, for example, the entries on Jan. 1 in the Bill books given. From the B. R. book the clerk turns up April 4 in the Diary and enters—

B. R. No. 1 £100.

Again on the space left for March 4 he enters

B. R. No. 2 £250.

Then from the B. P. book he turns up February 2 in the Diary and enters—

B. P. No. 1 £75.

Such a Diary would probably be ruled with money columns on both sides, by which means Bills Receivable could be clearly distinguished from Bills Payable.

DIARY, JUNE 4, 1895.

£	s.	d.		
167	10	2	B.R. No. 87	
300	0	0	B.R. No. 75	
			B.P. No. 107	£1,000 0 0

CLOSING B. R. AND B. P. ACCOUNTS.

(i.) *Bills Receivable account.* The balance of B. R. account (like the balance of any other property account) must be carefully compared with the actual value of the property. In the case of bills receivable, the first and most obvious thing to do is to make a list of bills in the bill case, add up their face values, and compare the total with the balance of B. R. account. These two must agree to a penny. If there is any discrepancy, there is an error, and the error must at once be hunted out and rectified.

But the face value of the bills does not represent their actual present value, and the difference is sometimes important to notice. This difference is the amount that would be charged by discounting the bills, that is to say, by selling them to the bill discounter for cash. But suppose I myself am the bill discounter (or banker), and I have been discounting these bills for my customers. Then when I did so, I reckoned the discount charged as profit. But this profit is only gradually earned. It is not fully earned until the bills discounted have all matured. It is therefore highly necessary that on balancing my books I should deduct from my P. and L. account that portion of my assumed profits that at the date of balancing has not been earned.

This amount, which is the difference we have been speaking of between the face value and the actual present value of bills receivable, is called **Rebate** on Bills not yet due. In the last published balance sheet of the London and County Banking Company (Feb., 1895) the amount appearing under this head was £25,115 19*s.* 4*d.*

(ii.) *Bills Payable account.* In balancing this account, we cannot check it, as in the case of B. R. account, by counting the bills not yet paid, for these bills are not in our possession. But we can compile a list of those that are not paid from the

bill book, and the total of this list must agree to a penny with the balance of B. P. account.

It is right to reckon this balance at the full value, for though by paying these bills at once we could probably secure rebate, yet to deduct this amount from our liabilities would be to assume a profit not yet actually earned, which would be contrary to all principles of sound finance.

EXERCISES TO LESSON XII.

Exercise XII.

Journalise, Post, and Prove the following transactions :—

You are required only to make out one account for Cash and Bank, and also one account each for Sundry Debtors and Sundry Creditors.

On February 1, 1894, I had Cash in Bank £500, Goods valued at £1,000, Bills Receivable £500, and Debts Receivable £1,000. I also owed Sundry Creditors £1,000.

Feb. 1, Received from J. R. Ellerman & Co., Bombay, Draft on G. I. Bean & Co. @ 3 weeks' sight £150. Feb. 2, Drew on H. W. Dorey, Selhurst, @ 2 months for £70. Feb. 3, Sent to G. I. Bean & Co., New Cross, Ellerman & Co.'s Draft on them, and received same back accepted £150. Feb. 4, Received Draft on H. W. Dorey duly accepted £70. Feb. 6, Lent W. H. Mollett £100 on his Pro Note @ 2 months £103. Feb. 7, Lost by my clerk on his way to Bank, Dorey's Acceptance £70. Feb. 8, A.B.'s Draft for £300 @ 10 days' sight presented to me for acceptance and I accepted the same. Feb. 10, Dorey's Acceptance returned by a clerk in Lloyd's Bank, who found same on counter ; gave finder £1 ; Gave my p/n to G. Butler @ 1 month for £600. Feb. 12, Drew on H. J. Watt, Berlin, @ 7 days' sight for £250. Feb. 14, Received Watt's Acceptance £250. Feb. 15, Received from J. A. Deakin Hale his p/n @ 6 weeks for £300. Feb. 16, Goods sold for Cash during period £100 ; Goods sold on Credit during period £900 ; Goods bought on Credit during period £600 ; Value of Stock on Hand £650.

Exercise XIII.

(Adapted from London Chamber of Commerce paper for Juniors.)

James & Co., of Calcutta, shipped per *Swan* to the order of H. Watts, London, 100 Chests of Indigo, Nett weight 25,430 lbs @ Rs. 2 per lb. (taking Rupee @ 1*s.* 6*d.*), Charges Rs. 475. Commission Rs. 1,200.

Reimbursement by Draft on H. Watts, London. Draw the Bill of Exchange @ 3 months' sight. (First of Exchange; 2nd and 3rd unpaid.)

Put two Endorsements on the above Bill, and explain clearly (1) "Endorsement," and its liabilities, (2) "in case of need."

Exercise XIV.

(1) Journalise the following transactions taken from the Waste Book of H. W. Shelley. (Do not Post.)

June 1, Bill Receivable due paid at Bank £165. June 2, Accepted Johnson's Draft £2,000. June 3, Bennett endorses to me a Bill accepted by Alton £300. June 4, Redeemed Bill Payable (by agreement) with value in Wine £900. June 5, Received from Coleridge his Acceptance on demand £120. June 6, Bought Goods from Southey, and in payment thereof endorsed to him Bill accepted by Alton £300. June 7, Demanded and received Cash in payment of Coleridge's Acceptance £120. June 8, Received Burke's p/n for Goods delivered £700. June 9, My Acceptance met on presentation (by Office Cash) £25. June 10, My p/n to Clay & Bock duly honoured £60. June 11, Received my own Acceptance to Johnson, from Leyen, in discharge of Debt £2,000.

(Oxford Local Examination Paper.)

(2) Meyer, of Hamburg, draws on Smith, of London, for £500 in favour of Duval, of Paris, to whom he sends the Bill.

Make in the books of—(1) Meyer, (2) Smith, (3) Duval,—the necessary Journal entries.

Exercise XV.

Journalise, Post and Prove the following Series.

Cash and Bank are identical.

On May 1, 1895, I have Cash in Hand £150 and have the following Bills in my Bill Case :—Selwyn £2,000, Bagshaw £500, Candler £850. I am also under acceptance to Campbell £1,000.

May 2, Discounted Selwyn's Acceptance and received Cash £1,970. May 4, Bought Goods of Cobb, for which I gave him my Acceptance @ two months £2,000. May 7, Discounted Bagshaw's Acceptance, Cash Proceeds £496. May 10, Sold to Mullins Goods £500. May 13, Retired my Acceptance to Campbell: Rebate allowed £25. May 16, Sold Goods to Haslam £400 and received his P/N £200. May 19, Discounted Haslam's Bill and received Cash £180. May 22, Sold Goods to Haines and drew on him at two months £1,150. May 30, Retired my Acceptance to Cobb, Rebate £50; Haslam paid in full £200. May 31, Received £200 from Mullins on Account; Paid Trade Expenses £50 and Private Expenses £75; Value of Stock £450.

Exercise XVI.

A.—(Cambridge Local Examination Paper for Juniors.)

A. bought Goods of B. to the value of £500. Not wishing to pay Cash he accepted a 3 month's bill drawn by B., who added Interest at the rate of 5 per cent. B. discounted the Bill at his Banker's at 3 per cent. ; but upon its falling due A. was unable to meet it, and it was returned. After some negotiation the matter was settled by A. paying Cash £250, and giving a 3 month's bill for the balance, adding notarial charges amounting to £1 5*s.* 6*d.*, and interest for 3 months at 5 per cent. This Bill B. retained in his case, and it was met by A. on presentation at maturity.

Make the necessary Journal Entries and Post the Ledger (1) in A.'s books, (2) in B.'s books.

B.—(Question 9 of a Civil Service Paper set in November 1884.)

What Journal Entries should be made for the transactions referred to in the following letters by each of the parties concerned?

The Expenses and Commission of John Smith amounted to £5 15*s.* 6*d.*

London, *Feb.* 1, 1881.

Messrs. W. GARFIELD & Co., Marsala.

Gentlemen,

At the request of Messrs. Brown & Co., of Liverpool, and to their debit, I have to enclose five seconds of Exchange, as noted at foot, amounting to £2,143 17*s.* 2*d.*, part of £5,300 which they have paid in to my bankers for the purpose of being remitted to you.

The *firsts* are with Messrs. V. Pistrucci & Co., of Naples.

Your obedient servant,
JOHN SMITH.

London, *Feb.* 1, 1881.

Messrs. V. PISTRUCCI & Co., Naples.

Dear Sirs,

I take the liberty of enclosing five firsts of Exchange, amounting to £2,143 17*s.* 2*d.*, as noted at foot, and to request that you will be good enough to obtain acceptance, and hold them at the disposal of the seconds, remitted this day to Messrs. Garfield & Co., Marsala.

Faithfully yours,
JOHN SMITH.

Exercise XVII.

Write out in full the transactions in respect of which the Merchant whose Bill Books are shown on pp. 248 and 252 made the several entries therein recorded.

APPENDIX TO LESSON XII

THE FOREIGN EXCHANGES

When we speak of the Foreign Exchanges we refer to the Exchanges of Capital between one country and another that are effected by means of Bills. We have already learnt that these Bills are called Bills of Exchange.

Bills of Exchange are bought and sold like any other commodity. There are *merchants* who make it their chief business to deal in them. There are *market places* and market days set apart for dealings therein. There are recognised *prices*, and there is a regular official *price list.*

If we can succeed in getting a glimpse into the mysteries of the buyings and sellings of this somewhat singular description of merchandise, we shall be thereby making a very elementary acquaintance with the subject of the Foreign Exchanges.

The Royal Exchange (opposite the Bank of England) is the great market place for bills, and the market days are Tuesdays and Thursdays. The merchants who deal in bills are called Bill Brokers, the Price List of bills issued every "market" day is called the *Course of Exchange*, and the price of bills on a certain country is called the *Rate of Exchange.*

So far all is simple enough. We must now examine :—

I. The *basis* of the Rate of Exchange between one country and another.

II. The *variation* in the Rates of Exchange.

III. The *limits* of that variation.

IV. The *causes* of that variation.

I.—The Basis of the Rate of Exchange.

Suppose I have bought silk of a Lyons merchant value 25,220 francs, and wish to remit a bill for that amount to him. What *price* shall I have to pay for it? In other words, what is the *Rate of Exchange* between England and France?

Now the *basis* of the rate is the comparative value of the principal coin of account in each of the two countries in question. So that the first thing to ascertain here is, How many francs (French money) go to £1 (English money)?

Perhaps you have been to France, and are familiar with the French silver coin called a franc. You must not however suppose that we are talking of silver francs. In all business relations between the two countries the word "*franc*" signifies the twentieth part of a French "*Napoleon.*" Now it is quite true that *in France*

20 Francs = 1 Napoleon,

just as *in England*

20 Shillings = 1 Sovereign:

but these values are *arbitrary*, that is to say, they are established by the laws of the respective countries. Twenty shillings are worth £1, not because the silver contained in the twenty silver coins is equal in commercial value to the gold contained in the one gold coin, but because the government has declared that it shall be so reckoned, and the people acquiesce. No one, however, is bound in England to receive more than 40 shillings worth of silver in payment of a debt, as has already been pointed out—and besides, the laws of one country are not binding on the people of another country, so we must bear in mind that when we speak of "*franc*" we mean "$\frac{1}{20}$th of a gold *Napoleon.*"

We come back then to the question, How many "*francs*" are equivalent in value to one English sovereign?

To find this out we compare the *weight* of the *pure gold* in the Napoleon and in the Sovereign, and neglect altogether the value of the alloy and the cost of making the coins.

Since 1869 sovereigns are coined from 480 ounces of standard gold

1 sovereign contains $\frac{480}{1869}$ oz. "*Standard*" gold.

But *Standard* gold contains $\frac{11}{12}$ *pure* gold.

$\therefore$ 1 sovereign contains $\frac{11}{12}$ of $\frac{480}{1869}$ oz. of *Pure* gold

and 1 oz. = 31·1035 "*grammes*"

$\therefore$ 1 sovereign contains ($\frac{11}{12}$ of $\frac{480}{1869} \times 31{\cdot}1035$) *grammes* of Pure gold.

How many "*twentieths of a Napoleon*" can be made from the above number of grammes? That is the question.

Now by the French law 155 Napoleons (= 3,100 "francs") are coined from 1 *Kilogram* (= 1000 grammes) of French standard gold, and French standard gold is $\frac{9}{10}$ Pure, $\frac{1}{10}$ alloy.

$\therefore$ 1 Napoleon weighs $\frac{1000}{155}$ grammes

and 1 Napoleon contains $\frac{9}{10}$ of $\frac{1000}{155}$ grammes of pure gold

$\therefore$ $\frac{1}{20}$ Napoleon (= 1 franc) contains $\frac{1}{20}$ of $\frac{9}{10}$ of $\frac{1000}{155}$ grammes of pure gold.

Divide the number of grammes pure gold in a sovereign by the number of grammes pure gold in a "franc," and we shall find the answer to our question: "How many francs = £1?"

$$\frac{\frac{11}{12} \text{ of } \frac{480}{1869} \times 31{\cdot}1035}{\frac{1}{20} \text{ of } \frac{9}{10} \text{ of } \frac{1000}{155}} = 25{\cdot}2215. \ldots$$

We see therefore that £1 is worth 25 francs 22 centimes, and this is the *basis* of the rate of exchange, and is called the

Mint Par of Exchange

between London and Paris. It follows that if I wish to buy a sight draft of 25,220 francs in London on Paris, I shall have to

give (when exchange stands at "Par") a thousand English sovereigns, or a cheque for £1,000, in order to obtain it.

II.—Variations in the Rate of Exchange.

We must not however suppose that exchange operations between London and Paris are always carried on at this price. The "Rate" varies from day to day and sometimes even from hour to hour, according to the law of supply and demand. If bills on Paris are plentifully offered and there are few buyers, the price declines. If, on the contrary, there is a strong demand and a poor supply, then the price of bills on Paris rises, that is to say, I must give more than £1,000 for my bill of 25,220 francs. In this latter case bills on Paris are said to be *at a premium.* In the former, they are *at a discount.*

But suppose there should be no bills on Paris to be had just when I chance to want one, or none of the amount I require. What then? Well, the fact is that there always *are* bills to be had, if I like to pay the price asked, for when the demand exceeds the *ordinary* supply of "trade bills" there are plenty of "Foreign bankers" (or bill merchants) in London who will "draw" on their correspondents abroad to any amount that may be required.

It will always answer their purpose to do this *at a price.* If the demand is considerably in excess of the ordinary supply, they are able to command a higher price for their services. If, on the contrary, the demand is slack, and holders of bills on any given country go about vainly trying to find buyers, they must just reduce the price, and they will soon find a market for their wares.

Thus the rates of exchange are constantly on the move. We have now to inquire what is the extent to which this movement can go.

III.—The Limits of the Variation in the Rate of Exchange.

We said just now that the Foreign banker was always ready to draw on his correspondents abroad. But will these correspondents *honour* his drafts?

> "I can call spirits from the vasty deep," says Owen Glendower. "And so can I, and so can any man," replies Hotspur; "but will they come when you do call to them?"

Certainly they will honour them; because they know very well that *the banker will repay them.* In technical language, the banker is said to "*cover his correspondent,*" and he will do this by the least costly method he can discover.

See now at what point we have arrived. There are numbers of "foreign" bankers constantly desiring to send money abroad to cover their own drafts, and there are two ways in which they can do this.

(1) They themselves may buy bills on other countries, which are in better demand at the place where their correspondent lives than they are here, and they may remit these to their correspondents, who will sell them and credit the proceeds.

(2) They may buy gold bars at the Bank of England and ship them abroad.

Of these two methods the first is generally the cheaper. The heavy cost of insurance, freight, and packing make the transmission of gold an expensive mode of settling debt. Yet *sometimes* it is found less costly to do this than to send bills.

SPECIE POINT.

We have seen that £1,000 (or £1,000 worth of gold bars) is equivalent to 25,220 francs, but if a banker sends £1,000 worth of gold over to Paris to cover his correspondent, it would not realise (after all expenses had been paid) more than 25,100 francs (or thereabouts). If then the London demand of bills should become very considerable, and the price in consequence rises so high that £1,000 will only purchase a bill for 25,095

francs, it would plainly be better to send the gold than to send the bill.

When the price of bills has risen so high that it pays better to send gold, rates are said to have reached **specie point.**

Notice that the rates (for drafts "on demand") between London and Paris must be the same at London as at Paris. In other words, the price of Paris Bills in London will always be quoted at the same number of francs per £ as the price of London bills in Paris. London bills cannot therefore be at a premium in Paris whilst *at the same time* Paris bills are at a premium in London.

> When is a bill "*at a premium*," and when is it "*at a discount*"? An illustration will make this clear. If the Exchange stands at 25·40 this means that for £100 cash in London I can obtain a sight draft for as much as 2,540 fr. on Paris. This is cheap (to the Londoner), who says "Bills on Paris are *at a discount.*"
>
> At the same time *and at the same rate* a resident in Paris has to give as much as 2,540 francs (cash) to obtain a sight draft on London for £100. This is dear (to the Parisian), and he says "Bills on London are *at a premium.*"

If it could be so (if the sight rates between two places at the same time could vary) then two men might league together to *draw on each other to an unlimited extent*, and they would very quickly make an enormous fortune, if they had no competitors! But they would have many eager competitors, for the slightest difference in the rates at the two places leaves an opening for this kind of enterprise, which would be instantly taken advantage of.

Thus it happens that when bills on Paris are eagerly sought after in London, bills on London are at a discount in Paris, and *vice versa*.

It follows from what has been said that whilst bills cannot rise in price much *above* Specie point, it is equally true that they cannot sink much below it. For if Paris bills in London were so freely offered that they fell below specie point, it would

pay some banker to buy them up, send them to Paris, and ask his correspondent to transmit gold in exchange.

The limit of the variation of the rates of exchange between any two countries is thus seen to be *twice the cost of transmitting gold between the two countries.*

All this would be much easier to illustrate if bills on Paris were quoted at a fixed number of francs for a variable number of pounds. Suppose, for instance, that the official Price List put the thing thus:—

Jan. 1. ...	A Bill on Paris	£1,005	(Jan. 1)
,, 15. ...	for 25,220 francs	£1,000	(Jan. 15)
,, 31. ...	may be had for	£995	(Jan. 31).

and suppose the inclusive cost of transmitting £1,000 worth of gold to be £5, it would be easy to *see* that on Jan. 1 the price of Paris bills just touched "specie point" above par, and on Jan. 31 the price just touched "specie point" below. They cannot go beyond these limits, for reasons we have explained. The range of possible variation would therefore be from £995 to £1,005, viz. £10, or *twice the cost of transmitting the specie.*

IV.—We must next inquire into the Causes of the Variation in the Rates of Exchange.

We have already found that the Variation in the Rates depends on the varying ratio between supply and demand. But this is only a postponement of the real question, which is this: What circumstances *cause* the demand for bills on any particular foreign country to outweigh the supply, and *vice versa?*

Put the question in another and a still simpler form: What makes people want bills on a foreign country? Well, plainly because they want to send *money* to that country, and bills are the most convenient way of doing so. But for what reasons do the people of one nation wish to send money to the people of another nation? Think of two individuals A. and B.

Why does A. wish to pay B. money? The motive may be either—

(i.) To pay B. a debt he owes him.

(ii.) To lend B. money (at interest).

It is just the same with nations. The desire for bills between England and France arises from two causes.

(i.) To pay debts.

(ii.) To gain interest.

(i.) When France owes more money to England than England to France, this state of things has a tendency to make bills on London eagerly sought after in Paris, and bills on Paris eagerly offered in London. Consequently the exchange moves favourably for England, and Paris bills are *at a discount* on 'Change.

When the opposite state of things prevails, bills on Paris are *at a premium* here and the rates of Exchange move against us.

This question of the *Relative Indebtedness* of the two countries is a very powerful factor in determining the Rate of Exchange between the two countries.

We must not suppose that the indebtedness of one country to another arises entirely out of Trade operations. A great deal of money is due to England from foreign countries for the freight of goods in English ships, for money lent, for interest on that money, and for other things, so that a table of exports and imports, however carefully drawn up, would give but a partial view of the relative indebtedness of any two countries.

We must also be careful to remember that with respect to the principal countries of Europe another cause that is constantly at work to produce changes in the Rates of Exchange is still more powerful than the desire to pay mutual debts. This we must now try to understand.

(ii.) We have already learnt that Bankers find it very convenient to invest a part of their savings in bills. Continental

bankers usually have in their bill cases a large number of bills on foreign countries, and are specially keen in their desire to hold a good proportion of first-class London bills.

Of course bills held for investment are not bills payable "on demand" or "at sight." Hitherto we have been considering only the rates of exchange as affecting *sight* drafts. This is what is called *The Short Exchange.*

When a three months or six months bill is bought or sold on 'Change a different rate is quoted. This is called *The Long Exchange.*

The difference between the "*Long*" and the "*Short*" rate depends upon the current rates for discounting first-class bills *in the country on which the bill is drawn.*

Thus, if a £1,000 sight draft on London costs 25,220 francs in Paris, and discount rate in London is 4%, a Paris banker who wished to *invest* in London bills would expect to get a £1,000 *three months* bill for 1 per cent. *less* than 25,220 francs, that is, for $25{,}220 - 252 = 24{,}968$ francs, so that the *Long* Exchange *there* would stand at $24{\cdot}96\frac{3}{4}$ or thereabouts.

If, on the other hand, a London bill merchant wished to invest £1,000 in bills on Paris when the Paris rate was 4% and the short exchange stood at 25·22, he would expect to get a three months' bill for 1 per cent. *more* than 25,220 francs in exchange for his £1,000. That is to say, the Long exchange *here* would stand at 25·47 or thereabouts.

Suppose however the Discount rate were 2% instead of 4, the difference between long and short would be $12\frac{1}{2}$ centimes (instead of 25).

The way a banker gains interest by investing money in bills is this. He buys bills at the Long rate (*or low price*), holds them till they are due, and then sells them at the Short rate (*or high price*), the difference representing the Interest on the money he has invested, at the Current rate *in the country on which the bills are drawn.*

It follows very plainly from what we have said that if a merchant invests money in bills drawn on a country where a *high* rate prevails, he will himself receive a high rate of interest for his investment, whilst if he invests money in bills that are drawn on countries where the Discount rates are *low*, he must be content with a smaller return for his outlay.

Now imagine to yourself thousands of continental bankers all eagerly on the look out for good investments. What do you suppose they will do? They will naturally be on the watch to secure bills on that country where discount rates rule high, and to avoid buying (but rather to sell) bills on those countries where Discount rates are low.

Hence it follows that a high discount rate causes the Exchange rates to advance by leaps and bounds, until it reaches specie point and *gold begins to flow in to the country*. Then when gold is plentiful discount rates drop, and some other country that offers a better field for investment is chosen, and the Exchange falls again.

We have now arrived at the explanation of the second cause in the Variation of the rates of exchange, viz. the attraction of high discount rates, or the comparative value of money.

Of these two causes of the fluctuations in Exchange rates—

(i.) Relative indebtedness
(ii.) Comparative value of money } between the two countries

the latter is by far the stronger in its influence amongst the more wealthy nations of Europe.

There is another consideration affecting the difference between the Long and the Short Exchange which we have not noticed yet. In all investments of money there is a certain element of risk or uncertainty, which should not be neglected though it may be very small indeed.

When a banker invests in foreign bills, he incurs a double risk.

(i.) The bill itself may be dishonoured.

(ii.) The Exchange rate may have fallen.

The first risk is comparatively slight, for only first-class bank bills are chosen for investment purposes. Slight as it is, however, the difference between the Short and Long rate takes notice of it, and will be found to be slightly in excess of what current interest rates alone would lead one to expect.

In considering the risk under this head, Investors in bills have also to notice the state of credit in the country, which may of course depend in its turn on the course of political or social movements, and the stability of its government.

The second risk is somewhat speculative, and may be considered as balanced by the contrary possibility that the Exchange may have risen.

Suppose we illustrate these two possibilities :—

(i.) *Exchange falls and causes a loss.*

A Paris banker invests £1,000 in a three months' bill on London when the Exchange there stands at 25·22 Short, 25·00 Long, and the London discount rate is 3%. The bill costs him in cash 25,000 francs, and he will naturally expect to receive his 25,000 francs back at the end of the month, plus interest at the rate of 3 per cent. per annum, plus a small margin for risk. And so he will, *if the Exchange rates do not alter.*

Cash paid for £1,000 bill (Long rate) .	25,000 francs.
Three months' Interest at 3%	187½
Margin for risk	32½
Cash received for £1,000 bill (Short rate)	25,220 fr.

But if the Short rate has fallen to 25·10 he will only receive 25,100 francs, so that his investment will only have yielded at the rate of about 1½ per cent. per annum, and he has received 120 francs less than he reasonably expected.

(ii.) *Exchange rises and causes a gain.*

If however the exchange has risen in the meantime, and at the end of the three months is quoted in Paris at 25·35 Short, 25·12½ Long, then he receives 25,350 for his investment of 25,000 three months ago, viz.—

Investment	25,000 francs.
Interest at 3%	187½
Margin for risk	32½
Gain on the exchange	130
	25,350

the result giving a return at the rate of over 5½ per cent. per annum.

It must be borne in mind that the holder of a bill can dispose of it *at any time he pleases* at a discount, and if rates have a tendency against him he will perhaps do so before the bill is due to avoid undue loss from this cause.

COURSE OF EXCHANGE.

We have already explained that the Course of Exchange is a *price list* of foreign bills. On the next page will be found an extract from the London Course of Exchange, February 28, 1895. The last column I have added myself in order to explain what would otherwise appear to the uninitiated to be simply an unmeaning column of figures.

To make the matter still clearer, take the first item in the list. This means that bills on Amsterdam (at sight or up to 10 days) may be bought or sold at the rate of from 12 florins 1⅝ stivers per £ to 12 florins 2⅜ stivers per £.

Now we can imagine a man who wants to buy a bill on Amsterdam saying to the seller of bills either (i.) *How many florins, &c., per £ do you allow?* or (ii.) *How many pence, &c., per florin do you charge?* and the answer to either of these two questions would give the rate of exchange between the two countries.

That is to say, the rate might be expressed (i.) as a variable number of foreign units for a fixed English unit, or (ii.) as a variable number of English units for a fixed foreign unit.

As a matter of fact, however, the *first method* of expressing the rate is always used for all European countries except Spain, Portugal, and Russia, and the *second method* is always used for these last three countries and also for India. The convenience of this arrangement is that we follow the same plan that is adopted abroad, and so are able to compare foreign quotations with our own without difficulty.

It must be borne in mind that with the majority of European countries *high rates are in our favour*, for they mean that we can obtain more Florins, Marks, Francs, &c., for a given number of pounds sterling than usual; but with Spain, Portugal, and Russia *low rates are in our favour*, for they mean that we have to pay fewer pence than usual for a given number of Roubles, Piastres, or Milreis.

COURSE OF EXCHANGE.

Thursday, February 28.

				Explanation.
Amsterdam	Short	12 1 5/8	12 2 3/8	Florins for £1
Do.	3 Ms.	12 2 1/8	12 3 1/8	
Rotterdam	,,	12 2 1/8	12 3 1/8	
Antwerp and Brussels	,,	25 37 1/2	25 42 1/2	
Paris	Short	25 22 1/2	25 27 1/2	Francs for £1
Do.	3 Ms.	25 35	25 42 1/2	
Marseilles	,,	25 36 1/4	25 43 3/4	
Zurich and Basle	,,	25 45	25 50	
Hamburg	,,	20 58	20 62	Marks for £1
Berlin	,,	20 58	20 62	
Frankfort-on-the-Main	,,	20 58	20 62	
St. Petersburg	,,	25 7/8	25 7/8	Pence for Rouble
Copenhagen	,,	18 31	18 35	Kroners for £1
Stockholm	,,	18 32	18 36	
Christiania	,,	18 32	18 36	
Vienna	,,	12 50	12 52 1/2	Florins Paper for £1
Trieste	,,	12 50	12 52 1/2	
Madrid	,,	43	43 1/4	Pence for 1 Piastre of 5 Pesetas
Seville	,,	43	43 1/4	
Venice	,,	26 95	27 05	Lira = franc
Naples	,,	26 95	27 05	
Lisbon	90 days	legal	currency	Pence per milrei
Oporto	,,	41 9/16	41 1/16	
Calcutta	demd.	1.0 1/16	1.1	Shillings and pence per rupee

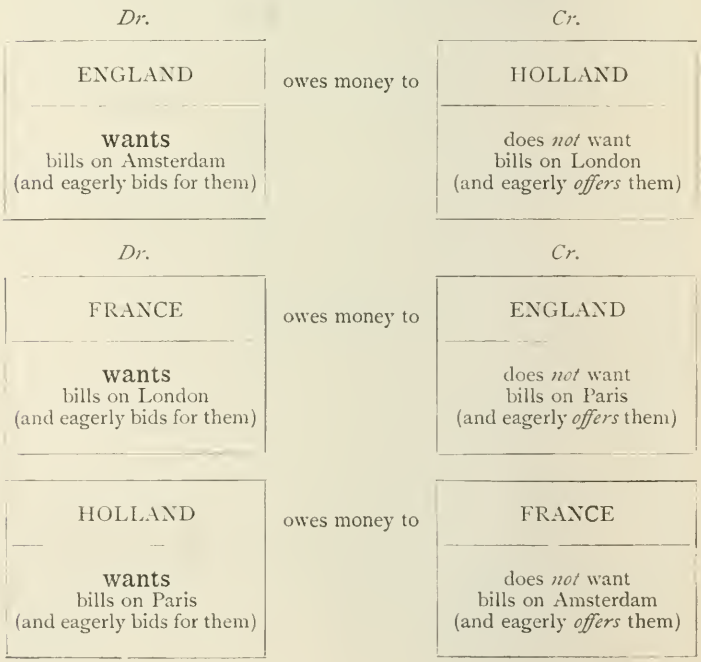
INDIRECT EXCHANGE

When a Parisian, wishing to remit money to London, buys a sight draft on London, he makes use of the *direct exchange.*

Suppose, however, it chances that he finds a difficulty in getting a draft on London. There happens just then to be a great demand in Paris for drafts on London, and the price is consequently high.

There are however plenty of drafts on some other country (say Holland), and these are going a-begging, and being offered at low prices. Can he send one of these? Yes, if the Londoner approves, and the Londoner certainly will approve if bills on Holland fetch a good price in London.

Let us illustrate this point by means of a Diagram



Now each of these three countries sends to its own "creditor country" the bills it does *not* want, and each receives the bills it does want.

ENGLAND does not want *Bills on Paris*, and sends them to HOLLAND, who does.

FRANCE does not want *Bills on Amsterdam*, and sends them to ENGLAND, who does.

HOLLAND does not want *Bills on London*, and sends them to FRANCE, who does.

This operation, called Indirect Exchange, is precisely analogous to the principle that governs the commercial dealings between different countries, each country sending to its neighbours the commodities of which for the time being it has a superabundant supply, and of which its neighbour happens at the same time to stand in need.

When a merchant has to *decide* what goods he will ship to certain countries or to what countries he will ship certain goods, he considers (i.) at what price he can procure those goods, or, in other words, what goods there is an abundant *supply* of, and (ii.) what prices he can obtain for those goods in other places, or, in other words, what countries exhibit a strong *demand*. In judging this question he acts as an arbitrator, he **arbitrates**, and then acts accordingly.

And when the Banker or bill merchant has to decide how he shall send money to other countries, whether by a direct or circuitous route, he also consults the price lists of his wares (the Course of Exchange both here and abroad), and he makes a calculation to show him how he can obtain the bill that is least wanted here and send it where it is most wanted. This calculation and the decision based thereon is called the

ARBITRATION OF EXCHANGES

A single example will suffice to make this clear.

I wish to send 50,000 francs from London to Paris. The direct exchange on Paris stands at 25·20, whereas bills on Vienna can be bought at 11·5 florins per £1 and sold in Paris at 220 francs per 100 florins. Or bills on Berlin can be bought at 20·35 marks per £1, and sold in Paris at 1·25 francs per mark. What would it cost by each of these three methods?

(i.) *Direct Exchange.*

25·20 francs for £1—

$= 50{,}000$ francs for $£\frac{50000}{25.2} = £1984{\cdot}5$.

(ii.) *Indirect Exchange.*

Arbitrated rates :—by Chain Rule.

(*a*) How many francs = £1

If £1 = 11·5 florins

And 100 florins = 220 francs?

Whence $\frac{11{\cdot}5 \times 220}{100} = 25{\cdot}30$ Arbitrated rate.

And cost of remittance by this route

$= £\frac{50000}{25.3} = £1976{\cdot}3$.

(*b*) How many francs = £1

If £1 = 20·36 marks

And 1 mark = 1·25 francs?

Whence Arbitrated rate = 25·45, and cost of remittance by this route would be £1964·6.

EXERCISES TO APPENDIX TO LESSON XII.

Exercise XVIII.

A merchant in London owes a merchant in Madrid a sum of 9,603 pistoles, which must be remitted through France, and pays over to his broker the amount required while the rate of exchange stands thus :

24·75 francs for £1, 37 francs for 2 Spanish pistoles. The broker holds over the money until the rates are 24·25 francs for £1, and 55 francs for 3 pistoles. How will this delay affect the broker?

Exercise XIX.

(*a*) Explain the meaning of the expressions *Arbitrated Exchange*, *Indirect Exchange*, *Specie Point*, *Short Exchange*, *Long Exchange*, *Rate of Exchange*, *Course of Exchange*, *Par of Exchange*, *Fall of the Exchange*, *Favourable Exchange*, *Foreign Banker*, *Bills at a Discount*, *Sight Draft*.

(*b*) Explain carefully how it is that the limit of the variation in the rate of exchange between two countries amounts to *twice the cost* of transmitting gold between the two countries.

(*c*) Explain what is meant by saying that the *Mint Par of Exchange* between London and the Continental cities mentioned below stands as follows: Paris 25.2215, Madrid 47.5785, Amsterdam 12.107, Berlin 20.43, Copenhagen 18.16, St. Petersburg 38, and Vienna 10.21.

Exercise XX.

(*a*) A New York merchant owes 20,000 marks in Berlin. The Exchange at New York on Berlin is 4.85 dollars per 20 marks, and on London 4.875 dollars per £ sterling. If the Exchange at London on Berlin is 20.75 marks per £, will the merchant find it more advantageous to remit direct from New York, or through London, and what difference will it make?

(*b*) A Berlin merchant wishes to transmit 50,000 francs to Paris. The Berlin *Course of Exchange* quotes "Paris 1.25" and "London 20.25." If the Paris Course of Exchange at the same time quotes "London 25.20," what would the Berlin merchant gain or lose by choosing the "*Indirect Exchange*"? (*Note.*—All the above quotations are *Short*.)

Exercise XXI.

Give a brief explanation of the following cutting from the Money Article in the daily paper, and decide therefrom the approximate price of Berlin Bills (Short Exchange) on Paris:—

EXCHANGES ON LONDON (telegraphed from)—Paris, cheques, 25.20; Berlin, eight days, 20.345; Frankfort, short, 20.34; Vienna, sight, 115.10; Hamburg, three months, 20.22; Amsterdam, eight days, 12.05½.

On 'Change to-day bills continued in good demand with the exception of France, which was more offered. Rates tended in favour of this country. Cheques on Paris were dealt in at 25.19½ and 25.20½; and on Germany 20.36 and 20.38.

Amsterdam and Rotterdam, 12.1¼ to 12.2¼; ditto, three months, 12.3¼ to 12.3¾; Antwerp and Brussels, three months, 25.40 to 25.45; Hamburg, 20.52 to 20.56; Berlin and German Bank Places, 20.53 to 20.57; Paris, cheques, 25.17½ to 25.22½; Paris, three months, 25.41¼ to 25.46¼; Marseilles, three months, 25.41¼ to 25.46¼; Austria, three months, 11.65 to 11.68¾; Petersburg, three months, 27 15/16 to 28 1/16; Moscow, three months, 27 15/16 to 28; Genoa, Leghorn, Naples, &c., three months, 25.77½ to 25.82½; Spain, three months, 45 9/16 to 45 11/16; Lisbon, three months, 52 to 52⅛; Oporto, three months, 52 to 52⅛; Copenhagen, three months, 18.36 to 18.40; Christiania, three months, 18.38 to 18.42; Stockholm three months, 18.40 to 18.44.

LESSON XIII

DEBTS

The word "*debts*" is a source of some confusion, because it is used popularly in two precisely opposite senses Debts due to A.B. and debts due by A.B. are both called A.B.'s "*debts.*" Strictly speaking, A.B.'s "debits" are debts due to A.B., whilst debts due from him to other people are his "credits."

Personal *debits* (or Book Debts, as they are frequently called) are part of a man's property. They can be bought, sold, or exchanged, like any other of his assets. It is not an uncommon thing for a business to be transferred from one owner to another *en bloc*, Stock, Plant, Fixtures, *and Debts*. These debts cease by such a transfer to belong to the old proprietor, and henceforth form part of the property of the new proprietor.

Personal *credits* are regarded as "property" accounts, because in any estimate of the proprietary Capital they have to be reckoned as diminutions thereof. In this sense they may be regarded as negative capital.

Personal debits and credits not covered by acceptances are distinguished from those that are thus secured by the phrase "*on open account.*"

Personal debits and credits are best *distinguished* by the phrases Debts Receivable and Debts Payable. The distinction between these two is not so clearly marked as the distinction

between Bills Receivable and Bills Payable. For the balance of a personal account may oscillate from the Dr. to the Cr. side repeatedly before the account is finally settled by a cash payment or otherwise.

When the debts are not of this oscillatory character, but belong definitely (in the main) either to one class or the other, it is both common and useful to keep a duplicate system of accounts, showing in the Trade Ledgers the amount of each individual personal account, and in the Private Ledger the amount of the sum total of Debts Receivable and the sum total of Debts Payable. This leads us to consider (1) individual personal accounts and (2) general personal accounts.

I. INDIVIDUAL PERSONAL ACCOUNTS.

These may be kept in a great variety of ways, according to the needs of every variety of business. A few examples will suffice.

Example I.

The ordinary Dr. and Cr. Account. (See page 99.)

Example II.

Personal account with double columns to show monthly totals.

JOHN JONES. (*Dr.* side only shown.)

1895		£	s.	d.	£	s.	d.
Jan. 1	To Balance	...	...	...	160	10	7
4	,, Goods	57	9	8	...	...	...
7	,, ,, ...	83	10	4	...	...	...
17	,, ,, ...	31	5	0	...	...	...
25	,, ,, ...	16	16	0	...	...	...
31	,, ,, ...	42	3	10	231	4	10

It is not absolutely necessary that a *Dr.* and *Cr.* account should be kept in the orthodox form. All that is really needed is that the *Dr.* and *Cr. money columns* should be distinct. They *may be* side by side, as in the following example :—

EXAMPLE III.

Personal account with Dr. and Cr. columns side by side.

JOHN JONES.

			Dr.			*Cr.*		
			£	*s.*	*d.*	£	*s.*	*d.*
Jan. 1	To Balance		160	10	7			
4	,, Goods...		57	9	8			
7	,, ,, ...		83	10	4			
17	,, ,, ...		31	5	0			
25	,, ,, ...		16	16	0			
31	,, ,, ...		42	3	10			
Feb. 1	By Cash		...	...		391	15	5
			391	15	5	391	15	5

A slight modification of the above method is very useful when it is necessary to keep a constant watch on the daily balance, as in a Banker's Ledger :—

EXAMPLE IV.

Personal account arranged to show daily balance.

JOHN JONES. *Dr.* *Cr.*

Date.	Particulars.	Folio.	Debit Balance.	Amounts posted to his Debit.	Amounts posted to his Credit.	Credit Balance.
1895			£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*
Jan. 1	By Balance ...		...	...	171 18 3	
,,	,, Remittance		...	...	72 12 6	244 10 9
,,	To Francis ...		...	136 0 0		
,,	,, Welldon ...		...	55 10 0		
,,	,, Copestake.		...	12 4 2	...	40 16 7
2	,, Bretherton.		...	15 0 0		
,,	,, Self ...		...	25 0 0	...	0 16 7
3	By Cash ...		...	...	64 7 5	65 4 0
,,	To Alexander		34 16 0	100 0 0		
,,	,, Isaacs ...		48 1 0	13 5 0		

INTEREST.

When a personal account is subject to *Interest* on the *Daily balance*, it is useful to have columns ruled specially for this item.

Dr. J. T. IN ACCOUNT WITH A. B.

Date.	Particulars.	Folio.	Days.	Principal. £	s.	d.	Interest. £	s.	d.
1895									
Jan. 1	To Balance ...		90	500	0	0	6	3	3
10	,, Tamkin ...		80	42	0	0	0	9	2
17	,, Burroughs ...		73	150	0	0	1	10	0
20	,, Gambrill ...		70	146	0	0	1	8	0
30	,, Elton		60	17	10	0	0	2	10
Feb. 19	,, Gregory ...		40	219	0	0	1	4	0
Mar. 21	,, Baldwin ...		10	36	10	0	0	1	0
31	,, Interest ...		...	8	2	2	...	...	...
				1,119	2	2	10	18	3
Apr. 1	To Balance ...			536	12	2			

The interest is calculated for the number of days that elapse between the date of entry and the date which the account is made up to (in this case March 31). Thus the number of days from Jan. 31 to March $31 = 28 + 31 = 59$. But the interest on the Balance (Jan. 1) is reckoned from Dec. 31, as the balance was brought from that date.

The Balance of the Interest column is transferred to the main column of the account (*Dr.* side) by a Journal entry debiting J. T. and crediting P. and L. (or Interest account).

Of course an account might have been kept *subsidiary* to the main account, entitled J. T.'s Interest account, and this account could be transferred to J. T.'s account current at stated intervals. The convenience of the *combined* method is however obvious.

The Interest on the credit entry Feb. 15 is calculated not from the date of entry, but from the due date of the bill. When bills are credited or debited, the due date of which runs

(INTEREST TO MARCH 31ST, 1895). *Cr.*

Date.	Particulars.	Folio.	Days.	Principal.			Interest.		
1895				£	*s.*	*d.*	£	*s.*	*d.*
Jan. 10	By Sampson... ...		80	100	0	0	1	1	11
31	,, Eland		59	50	0	0	0	8	1
Feb. 15	,, Bill *due Mar.* 1...		30	250	0	0	1	0	7
Mar. 11	,, Cash		20	73	0	0	0	4	0
21	,, ,, ...		10	109	10	0	0	1	6
31	,, Balance of Interest transferred to Current Account		...	...	...	...	8	2	2
,,	,, Balance of Current Account ...		...	536	12	2	...	...	...
				1,119	2	2	10	18	3

beyond the period up to which Interest is calculated, we must (if we wish to be exact), in the case of a credit entry, *debit* the Interest for the period thus overrun.

Suppose, for example, that the entry on Feb. 15 had been

By Bill due June 12.

Then instead of crediting J. T.'s interest account I must debit J. T.'s interest account with interest on £250—March 31 to June 12, viz. 73 days = £2 10*s.* 0*d.*, or in other words I must enter £2 10*s.* 0*d.* in the Interest column on the *Dr. side.*

While on the subject of Interest it may be well to point out—

(i.) The difference between Interest and Discount.

(ii.) The difference caused by the frequent payment of Interest.

(i.) *The difference between Interest and Discount.*

No better definition can be given of Discount than that it is the "difference between present value and future value." But it must be remembered that Discount is reckoned on the *future* value, and not on the *present* value.

If I have 100 sovereigns in my possession, £100 is their present value. If I take these sovereigns and put them out to interest at five per cent. per annum, then at the end of the year I have the original sum *plus* £5, namely £105.

If, then, £100 is P.V., £105 is F.V.

☞ (*i.e.* P.V. is $\frac{100}{105}$ of F.V.) ☜

Now suppose I have in my possession a bill for £105 *due* 1 *year hence.* It is plain that in this case £105 is the *Future* Value (not the present value), and if the current rate of interest is 5%, then £100 is the present value.

But suppose I have a bill for £100 due 1 year hence. Then £100 is the *Future* Value. What is the Present value? We saw above that (at 5% for 1 year) the P.V. was $\frac{100}{105}$ of F.V., and we find by calculation that $\frac{100}{105}$ of £100 = £95 4*s.* 9*d.*

£95 4*s.* 9*d.* is therefore the Present value of £100 due 12 months hence at 5%. Therefore £4 15*s.* 3*d.* is the True Discount.

But the current rate of Interest is often much below 5%, and bills do not usually run for 12 months. Let us therefore take another example :—

I have £10,000 worth of bills due 3 months hence, and the current rate is 2%. It is clear that £10,000 is not the present value of these bills, but the future value. What is their present value?

We cannot say P.V. is $\frac{100}{105}$ of F.V., as in the previous example, for we know that £100 put out to interest for 3 months at 2% would only yield 10*s.* and that its future value (at the given time and rate) would be £100½. We therefore say in this case P. V. is $\frac{100}{100\frac{1}{2}}$ $\left(\text{or } \frac{200}{201}\right)$ of F.V., and we find by calculation that this comes to £9,950 5*s.* very nearly. The true Discount is therefore £49 15*s.*, but the Interest on £10,000 for 3 months @ 2% is £50.

The Banker or Bill-discounter charges the full "Interest" rate, and thereby gains an advantage—small indeed when rates are low, but *increasing in a rapid ratio when rates rise.*

Thus at 2%, as we have seen, "discount" on £10,000 *for* 3 *months* is only 5*s.* *less* than "Interest."

	£	*s.*	*d.*
At 2½ per cent. the difference is	0	7	9
,, 3 ,, ,, ,, ...	0	11	2
,, 4 ,, ,, ,, ...	0	19	10
,, 5 ,, ,, ,, ...	1	10	10
,, 6 ,, ,, ,, ...	2	4	4

If we take a longer period of time and higher rates, the difference between Interest and Discount is still more marked. Thus on £10,000

	£	*s.*	*d.*
At 10 per cent. *for* 12 *months* the difference is	90	18	2
,, 25 ,, ,, ,, ,, ,,	500	0	0
,, 50 ,, ,, ,, ,, ,,	1,666	13	4

This *difference* being the Interest on the Discount (*or* the Discount on the Interest), for the sum named at the given time and rate. Of course rates never rise to the absurd figures given above. They are only quoted to show the principle.

(ii.) *The difference caused by the frequent charging of Interest (or payment of dividends).*

A.B. has a Current Account with C.D. subject to Interest at 5% per annum.

Assuming for the sake of simplicity that A.B.'s debit balance on Jan. 1 is £1,000, and that it remains constant throughout the year, we will compare three modes of keeping A.B.'s account.

(*a*) *Charging Interest yearly.*

Dr. A. B. *Cr.*

1895			1895		
Jan. 1.	To Balance ...	£1,000	Dec. 31.	By Balance ...	£1,050
Dec. 31.	,, Interest ...	50			
		1,050			£1,050
1896					
Jan. 1.	To Balance ...	£1,050			

(*b*) *Charging Interest quarterly.*

Dr. A. B. *Cr.*

	£	s.	d.		£	s.	d.
1895				1895			
Jan. 1. To Balance.	1,000	0	0	Mar. 31. By Balance	1,012	10	0
Mar. 31. ,, Interest.	12	10	0				
	1,012	10	0		1,012	10	0
Apr. 1. To Balance.	1,012	10	0	June 30. By Balance	1,025	3	2
June 30. ,, Interest.	12	13	2				
	1,025	3	2		1,025	3	2
July 1. To Balance.	1,025	3	2	Sep. 30. By Balance	1,037	19	5
Sep. 30. ,, Interest.	12	16	3				
	1,037	19	5		1,037	19	5
Oct. 1. To Balance.	1,037	19	5	Dec. 31. By Balance	1,050	18	11
Dec. 31. ,, Interest.	12	19	6				
	1,050	18	11		1,050	18	11
1896							
Jan. 1. To Balance.	1,050	18	11				

(*c*) *Charging Interest monthly.*

If Interest had been charged *monthly*, the balance at the beginning of the new year would have been £1,051 3*s.* 3*d.*

[Small moneylenders know the importance of this principle very well, and actually charge weekly interest in some cases! They are apt also to forget the important words "*per annum*" when quoting their charge for a little loan. If Interest had been charged at 5 per cent. (not per annum) the unfortunate A. B. would find that he owed Mr. Shark £1,795 17*s.* 2*d.* on Dec. 31].

OBSCURE TRANSACTIONS.

When there is some difficulty in knowing which out of several personal accounts are to be debited or credited, in connection with any given transaction, the following considerations will give the thoughtful student some assistance.

(i.) If a personal account has to be debited, consider, *For whose benefit* did I carry out my share of the transaction in question? Suppose I pay A. B. a sum of money. The *prima facie* assumption is that I do it for A. B.'s benefit; but it may be that I am quite uninterested in A. B., and that his name is not in my books at all. I have perhaps merely paid him this sum because requested to do so by C. D. *So far as I am concerned* I have been acting for *C. D.'s* benefit. I must therefore *debit C. D.*

(ii.) Or if some personal account has to be credited, consider, *To whom am I indebted* for the benefit accruing to me through the transaction in question? Suppose you meet a friend in the street. "I have to thank you, I believe, for that hamper." "Not at all," he replies; "I sent it at Robinson's request; you must thank him." Just so I may receive a sum of money *from A. B. by request of C. D.;* I must therefore *credit* C. D.

As an illustration, take the following question from a Civil Service Bookkeeping paper:—

> "Watson and Campbell, of London, pay by cheque on Bank of England to E. Gehe for the honour of A. S. Watson, of Shanghai, a bill drawn and sold by him in Shanghai on Lupin & Co., and protested by E. Gehe for non-payment.
>
> | | |
> |---|---|
> | Bill and costs . . . . | £830 |
> | Watson & Co.'s brokerage | 20 |
>
> What Journal entry should be made by Watson & Co.?"

All confusion arising from the different names is avoided by putting the question—*For whose advantage* did Watson & Co. perform this act of kindness? Plainly for A. S. Watson's. Therefore they debit him. And as the credits are simple enough, the Journal entry in Watson & Campbell's books will be—

A. S. Watson, Dr.	£850	
To Bank.		£830
„ P. and L.		20

A subsequent question in the same paper says :—

"What should be the Journal entry of A. S. Watson for the above transaction ?"

Here A. S. Watson asks himself: (i.) To whom am I indebted for this kindness ? Plainly to Watson & Co. Therefore I must credit them (and thus make myself responsible for repaying their kindness). (ii.) For whose advantage do I take upon myself this responsibility ? Now the man who has hitherto got the best of this series of events is Lupin, who has escaped the burden of paying for the bill by the simple process of dishonouring it, and thereby throwing back his responsibility on other people. A. S. Watson says, For Lupin's. Therefore I must debit Lupin. Hence the entry will be—

Lupin & Co., *Dr.*	£850	
To Watson & Co., *Cr.*		£850

The following Mnemonic Rhymes will perhaps be found useful in journalising transactions involving some difficulty as to personal accounts.

PERSONAL DEBITS.

Debit all RECEIVERS, who receive, no matter what
Services, or Goods, or Cash, the smallest little jot.

But remember here that the Person debited must receive the services, &c., *from the Person* in whose books the entry is being made.

The next couplet is less unambiguous.

PERSONAL CREDITS.

Credit all the GIVERS, those who give you any Thing,
Or Favour or Advantage to the house of business bring.

But after all the only way of being sure you are right with these transactions is to ask whether Value has actually gone IN to the account or come OUT from it ; in other words, Is this Asset or Liability now standing in my books exactly as it

ought to stand in my Final Balance Sheet? that is, *Does it truly and exactly represent the facts?*

II. GENERAL PERSONAL ACCOUNTS.

General accounts for Debts Payable and Debts Receivable are usually kept in the Private Ledger. Suppose that the Balance Sheet on Jan. 1 shows—

Debts Payable		£2,430
Debts Receivable, Gross . . .	£4,755	
Allowance for Doubtful Debts . .	255	
Net		£4,500

Open an account in the Private Ledger :—

Dr. DEBTS PAYABLE. *Cr.*

			Jan. 1.	By Balance ...	£2,430

and another :—

Dr. DEBTS RECEIVABLE. *Cr.*

Jan. 1.	To Balance ...				
	Gross ... £4,755	£4,500			
	Allow.... 255				

At the end of the period for balancing the books, post the totals of Invoice Book and Day Book respectively to the credit and debit of these two accounts. They will then appear as under

Dr. DEBTS PAYABLE. *Cr.*

			Jan. 1.	By Balance ...	£2,430
			31. ,,	Credit Purchases	2,765

Dr. DEBTS RECEIVABLE. *Cr.*

Jan. 1.	To Balance	... £4,500			
,, 31.	,, Credit Sales ..	2,976			

The other necessary items for these accounts are posted from the Cash Book (see Lesson XI., page 192), Bill Book, and Returns Book for Goods returned. An adjustment of Debts Receivable account may be necessary in consequence of a larger allowance than before being made for future Bad Debts, also for sundry debts, heretofore Doubtful, but now to be classed as Bad and *written off*. These adjustments will of course be made through the Journal, and the postings therefrom will complete the entries in the two accounts under consideration.

Dr. DEBTS PAYABLE. *Cr.*

1895			1895		
Jan. 31	To Cash ...	£3,034	Jan. 1.	By Balance ...	£2,430
,,	,, Discounts ...	115	31.	,, Credit Purchases	2,765
,,	,, Returns ...	41			
,,	,, **Balance** ...	2,005			
		£5,195			£5,195
			Feb. 1.	**By Balance** ...	£2,005

Dr. DEBTS RECEIVABLE. *Cr.*

1895			1895		
Jan. 1.	To Balance £4,755		Jan. 31.	By Cash	£3,553
	Doubtful ...255		,,	,, Discounts ...	78
	Net	£4,500	,,	,, Returns ...	54
31.	,, Credit Sales ...	2,976	,,	,, Written off—	
				Jones ...£25	
				Brown .. 12	
				Adams .. 36	
					73
			,,	,, Addit. Allow.	50
			,,	,, **Balance** ...	3,668
		£7,476			£7,476
Feb. 1.	To Balance £3,973				
	Doubtful ... 305				
		£3,668			

It is manifest that these accounts, which are groupings of individual personal accounts, can only be kept by *duplicate postings*, the individual items of Credit Sales, for example, being posted to the *debit* of the individual accounts in the Trade Ledger, and the totals posted (also to the *debit*) of the general account in the Private Ledger. This duplicate posting forms no part of the scheme of Double Entry Bookkeeping; indeed, it is in some sense a violation of its principles, unless it is distinctly borne in mind that only one of these two debit postings finds its way into the final Balance Sheet.

With this understanding and limitation, the plan forms a useful intermediate check to the general balance, since it is manifest that the sum total of the individual Debts Receivable in the Trade Ledger must of necessity equal the *gross* amount of the balance of D.R. account in the Private Ledger.

DEPOSITS AND ADVANCES.

If we receive deposits of Cash or make advances of Cash, we may keep a book for recording the names of the Depositors, together with the amounts and dates of withdrawal; also a book for advances with columns for the dates and amounts of repayments. All the necessary particulars as regards the individual persons being recorded in these books, the only personal accounts needed in the Ledger will be *Deposit Account* and *Advances Account.* Every fresh deposit will entail a credit to Deposit account and every fresh advance a debit to Advances account. Every withdrawal of Cash will need a debit to Deposit account, and every repayment of an Advance will call for a credit to Advances account. These two *personal* accounts will of course need adjustment at closing to bring them into harmony with the facts.

HOW TO CLOSE PERSONAL ACCOUNTS.

Before we can be sure that the balance of any account is ready for the Final Balance Sheet we must know two things:—

1st. *That the amount is correct*, that is to say, that it accurately represents the actual present value of that portion

of the owner's property indicated by the title of the account. If not, it needs *adjustment* to harmonise it with the facts.

2nd. That it really belongs to the account under whose heading it appears. If not it needs *transfer*.

Every account in a Ledger (real, personal, and nominal) should therefore be examined before closing to see if it requires

(i.) Adjustment (Rule A).

(ii.) Transfer (Rule D).

☞ You will find it useful to bear in mind that *no question can possibly arise in connection with the closing of personal accounts that will not be included under one of the two heads enumerated above.*

EXAMPLES.

Suppose we have to examine the personal accounts given below previous to closing and balancing.

Dr. J. JONES. *Cr.*

Jan. 1.	To Balance ...	...	£52		

Dr. J. BROWN. *Cr.*

1895		£	s.	d.	1895		£	s.	d.
Jan. 1.	To Balance ...	75	10	0	Jan. 3.	By Cash ...	50	0	0
10.	,, Goods ...	33	12	6	11.	,, Returns ...	11	2	9
15.	,, ,, ...	45	11	3	27.	,, Cash ...	66	16	0
25.	,, ,, ...	16	14	9					

Reconcile.

Dr. J. ROBINSON. *Cr.*

Jan. 1.	To Balance	£52		
30.	,, Goods	266		

Discount.

Dr. G. HEATH. *Cr.*

Jan. 1. To Balance	£5	*No address. Write off.*	

Dr. SMITH (?). *Cr.*

		Jan. 7. By Cash	£10

Dr. W. BENSON. *Cr.*

Jan. 1. To Balance	£76	*Deceased.*	

Dr. E. MILLER—STATIONERY ACCOUNT. *Cr.*

Transfer.		Jan. 1. By Balance	£30
		17. ,, Sundries... ...	22
		20. ,, ,, ...	12

BAD AND DOUBTFUL DEBTS.

(1) Jones's account has a debit balance of £52. This account has been owing a long time, and I hear rumours which make me regard it as "doubtful." In a just estimate of my assets I could not state it at its full value. Suppose I reckon it at half. Jones's account now evidently needs ADJUSTMENT. How is the adjustment to be made? If it were possible accurately to value each separate debt, a journal entry could be made.

P. and L., *Dr.* . . £26
To Jones, *Cr.* . £26

(For diminished value of his debt to me.)

But the impossibility of any accurate valuation of this kind in the case of individual accounts gives rise to another plan.

Make a note of Jones's doubtful debt on a sheet of paper. Add to this amount all the other doubtful debts as you come to them in your Ledger, grouping them in columns (if you think it desirable) according to the greater or less degree of hopefulness entertained as to their recovery. At the close of your examination of all your personal accounts your paper shows, let us say, the following totals :—

(*a*) Somewhat Doubtful .	£124
(*b*) Doubtful	86
(*c*) Very Doubtful . . .	132

Let us now take off 25% from class (*a*), 50% from class (*b*), and 75% from class (*c*).

Class (*a*) 25% off	£124 = 31
(*b*) 50% off	£86 = 43
(*c*) 75% off	£132 = 99
Total	£173

Supposing that I have made no previous "Allowance for future Bad Debts," I must now open an account under this heading, and credit it with the whole of the above amount, by the Journal entry

P. and L., *Dr.*	£173
To Allowance Account .	£173

(Being allowances for sundry doubtful debts, as per "Doubtful Debts book," folio 21.)

Now you will see, I hope, how Jones has (in effect) had his account adjusted after all, by opening another account to him (and other people), and crediting that account instead of Jones's (and the other people's) original account.

Dr. JONES (AND OTHERS). *Cr.*

Allowance for Doubtful Debts.

		£
Jan. 31.	By 25% off £124	31
,,	50% off £86 (including Jones's £26)	43
,,	75% off £132	99

It is quite possible that Jones's share of the above will one day be *transferred* to Jones's original individual account as under :—

Allowance Account, *Dr.* . . £26

To Jones, *Cr.* £26

(Transfer to Jones's account, having agreed to accept a Composition of 10*s.* in the £ on his debt.)

Our forecast in this particular case has chanced to prove singularly accurate, Jones having compounded with his creditors to pay 10*s.* in the £ in full settlement of all claims.

Before we pass on to Brown's account there are two more things to be said on the subject of the adjustment of personal accounts for doubtful debts.

It is quite possible that I have already made an allowance for these in my books, and I want you to see how to treat the matter—

(*a*) When the present estimate *exceeds* the amount in Allowance account;

(*b*) When it falls short of it.

(*a*) Suppose it exceeds the allowance. Suppose, for example, that I have already £100 standing to the credit of Allowance account, but my estimate of diminished value of Debts Receivable on account of doubtful debts comes to £173, as already detailed.

Allowance account must evidently be increased, and P.andL. must be debited with the increase by means of a Journal entry thus—

P.andL., *Dr.* £73

To Allowance account £73

(For increased allowance for doubtful debts; see *Doubtful Debts List*, Dec. 31, 1894.)

(*b*) Suppose, however, the allowance already made exceeds the estimated necessities of the case. If the amount of such difference is small, it is better

to take no notice of it; but if it is considerable, then the list of Personal accounts must be most carefully *revised*, to see if we have not taken too sanguine a view of their repayment. But if this *has* been done, and there remains no lingering doubt in our mind as to the fact that Allowance account has too large a balance, then a Journal entry must be made exactly the opposite of the one shown above.

Suppose, for example, that our Allowance account stands at £250 credit, and that after a jealous scrutiny of our list we can only bring the £173 up to £200; then Journalise as follows–

Allowance Account *Dr.*	... ...	£50
To P. and L. *Cr.*	... ...	£50

(For over-estimate of allowance for future bad debts; see *List* Dec. 31, 1894.)

RECONCILIATION.

(2) Now we turn to J. Brown's account, at the foot of which I see a little pencil memorandum, written by our thoughtful manager—"*reconcile.*" It is much more satisfactory, where possible, to obtain before closing, from the person whose account stands in our books, a statement showing how *our* account stands in *his* books. If any discrepancy exists between the two, its cause should be diligently inquired into, and the errors rectified before balancing, so that the two statements should be *reconciled.* (See page 187.)

On inquiring in the office, I find that Mr. Brown has already sent in his statement and that it disagrees with our books in several particulars. Here it is.

Dr. J. T. IN ACCOUNT WITH J. BROWN. *Cr.*

1895		£	s.	d.	1895		£	s.	d.
Jan. 3.	To Cash ...	50	0	0	Jan. 1.	By Balance ...	75	10	0
11.	,, Carriage paid	0	1	6	10.	,, Goods ...	21	17	7
27.	,, Cash ...	66	16	0	12.	,, ,, ...	0	10	6
,,	,, Discount ...	1	0	6	15.	,, ,, ...	45	12	3
					25.	,, ,, ...	16	14	9

Let us take the entries in order of date—

Jan. 1. Fortunately the balance agrees. Otherwise we should have had to probe for the discrepancy into last year's accounts—a dismal prospect—

but our firm have a happy knack of clearing up all these little matters every balancing time, so we have no arrears of discrepancies to trouble about.

Jan. 10. By Goods, £21 17*s.* 7*d.* Our books say, To Goods, £33 12*s.* 6*d.* Stop a bit. There is an entry on the 11th in our books, By returns, £11 2*s.* 9*d.*, and it is not in Brown's statement. Brown has evidently only credited us with the Goods kept by him. How do we stand now?

Statement.			Books.			
£	*s.*	*d.*		£	*s.*	*d.*
21	17	7		33	12	6
			less	11	2	9
				22	9	9

Here is still a discrepancy of 12*s.* 2*d.* Now I notice an entry in the statement crediting us with 10*s.* 6*d.*, and on inquiry I find this is part of the same transaction, Brown having exchanged a certain article which he had returned. The discrepancy on this group of entries is now reduced to 1*s.* 8*d.*, and this difference I can in no way explain. The carriage of returns, 1*s.* 6*d.*, I am afraid we must allow, and also the discount, as we promised 2½ per cent. on all goods bought and paid for *within the month*, and this works out to just about the sum debited to us. There is now only one discrepancy left, viz., 1*s.* on Jan. 15. Researches are at length rewarded by the discovery that a careless clerk of ours has undercast the invoice of goods on that date 1*s.* We now supply Brown with our revised statement, and he on his part discovers the 1*s.* 8*d.*, which he rectifies in his own books.

Here are the necessary Journal entries for our own books :—

Discounts and Allowances, *Dr.*	£1	2	0		
To J. Brown, *Cr.*				£1	2	0
J. Brown, *Dr.*		1	0			
To Discounts and Allowances, *Cr.*					1	0

These being posted in Brown's account, it has now been reconciled and adjusted accordingly.

DISCOUNTS.

(3) In Robinson's account, there is a memorandum "*Discount.*" This account is typical of a class of accounts that have to be dealt with after the manner of J. Jones's account

(page 292). It is subject to a heavy trade discount if paid within a certain time. Now we do not know for certain whether Mr. Robinson will pay this account in time, and so secure the discount, but we do know and can feel reasonably certain that out of many such accounts a considerable proportion will be paid *subject to discount.* If therefore we reckon all accounts of this class at their full book value we shall undoubtedly overstate our Assets, and produce an unreliable balance-sheet.

We must therefore adjust all these accounts to their true value by opening an account headed "Allowance for discounts on outstanding accounts," or "Discount reserve," or some such title, and having estimated outstanding discounts by taking out a list, and making a careful calculation, as we did for doubtful debts, we adjust by means of a Journal entry.

P. and L., *Dr.*	£50 o o	
To Discount Reserve, *Cr.* .		£50 o o

(For estimated amount of trade discounts on outstanding accounts.)

TRANSFERS.

(4) Against Heath's account I see the memorandum "*No address. Transfer.*" This is evidently a bad debt. Heath has vanished and left no address, and there is no hope of our getting the money. In some special cases of this kind we may trench upon our Reserve or Allowance Fund, but the safest plan in ordinary cases is to say—

P. and L., *Dr.*	£80 o o	
To Sundry accounts written off		£80 o o
as under, viz., Heath £5 o o		
&c., &c.		
£80 o o		

(5) Smith's account (with a note of interrogation) is evidently a kind of Suspense account (Lesson IX.). Our bookkeeper

did not know at the time of entry which Smith to credit. Inquiry reveals the fact that they knew a week ago in the office that it ought to have gone to WILLIAM CLARE SMITH. "Then why was it not transferred at once?" "Well, we had filed a memorandum to do so." "But that memorandum file should be cleared daily. However, make the transfer at once."

Smith (?) *Dr.*	£10 0 0	
To Wm. C. Smith . . .		£10 0 0

(Transfer of Cash received on Jan. 7 from "Smith," since ascertained to be W. C. Smith.)

(6) W. Benson's account has the word "*deceased*" against it. Transfer it thus:—

Exors. W. Benson, *Dr.* . .	£76 0 0	
To W. Benson, *Cr.* . . .		£76 0 0

(W. Benson deceased Jan. 12, 1895.)

CONTRA ACCOUNT.

(7) E. Miller's Stationery account. There is also an account in our books for E. Miller where he stands as our Debtor £110. We therefore transfer this "*contra account*" for sundries supplied as a set off, instead of allowing it to stand and swell out our list of liabilities unduly.

I want students of bookkeeping, especially those that have not had the benefit of an office experience, to notice that the above are only *specimens* of the variety of perplexing questions that are constantly arising in real life with reference to personal accounts.

We may gather up what we have learnt about the closing of personal accounts in the following form:—

Personal Accounts

before closing and balancing should be examined—

(i.) As to Adjustment.
(ii.) As to Transfer.

They may need *Adjustment*—

(i.) For Doubtful Debts.
(ii.) For Discounts.
(iii.) For Reconciliation as per Contra Statement.
&c., &c.

They may need *Transfer*—

(i.) In case of Bad Debts.
(ii.) In case of Suspense accounts.
(iii.) In case of Death.
(iv.) In case of Temporary or Subsidiary accounts.
&c., &c.

When all Adjustments and Transfers have been made, they are ready (but not till then) for the Final Balance Sheet.

EXERCISES TO LESSON XIII.

Exercise XXII.

You are required to make out all the Personal Accounts in the Ledger of Messrs. John Cross and Henry Law from the following list of transactions. (The transactions were set for Society of Arts Examination in 1892.)

John Cross and Henry Law, oil merchants, had respectively £3,186 and £3,520 Capital on January 1, 1892, and their Balance Sheet at that date showed the following liabilities:—Creditors on open accounts: H. Hall £184 9*s.* 6*d.*; L. Lowe £281 13*s.* 5*d.*; B. Bright £560 14*s.*; bills payable, Nos. 101, 102, 103, £831 1*s.* 6*d.* Their assets consisted of freehold property worth £1,800; cash at banker's £1,842 9*s.* 6*d.*, and in office £5 6*s.* 8*d.*; debts owing, Cook and Co. £428 1*s.* 9*d.*; D. Dale £94 7*s.* 6*d.*; F. Foote £132 9*s.* 7*d.*; acceptances in hand, Nos. 36, 37 and 38, £459 5*s.*; horses and movable plant £841; stock in trade £2,960 18*s.* 5*d.*

		£	*s.*	*d.*
Jan. 1.	Sold Gribble and Sons 500 gallons linseed oil at 2*s.* 2*d.*	54	3	4
2.	Sold black horse "Bob" and received prompt cash ...	50	0	0
	Paid sundry current expenses	4	4	0
4.	Received payment of bill No. 36...	113	10	0
	Drew cheque for office cash	35	0	0

			£	s.	d.
Jan.	5.	Bought of S. Sims 50 barrels petroleum	48	7	6
	6.	Paid district rates	12	17	0
		Paid bill No. 101, due this day	115	6	8
	8.	Sold J. Pyke 10 barrels colza oil	60	0	0
		Received his bill at 2 months	60	0	0
	9.	Paid H. Hall	180	0	0
		Discount allowed	4	9	6
	10.	Sold D. Dale 180 gallons boiled oil	21	0	0
		Received his cheque	111	0	0
		Allowed him discount	4	7	6
	11.	Received final composition F. Foote, 17*s.* 6*d.* in the £	115	18	6
	12.	Bought of S. Sims Russian petroleum	120	0	0
		Gave him bill at 3 months, less 2½% discount ..	117	0	0
		Paid L. Lowe	200	0	0
	13.	Consigned to B. Hatch, Christiania, sundry oils .	428	10	0
		Sold D. Dale 10 barrels petroleum	10	1	6
	15.	Paid wages for fortnight	8	15	0
		Sold J. Pyke kerosene as per invoice...	342	10	0
	16.	Received of Cook and Co. cheque	300	0	0
		,, their acceptance at three months	128	1	9
	17.	Sold J. Pyke linseed oil as per invoice	37	10	0
		Received of J. Pyke bill at three months	342	10	0
		Discounted same with Bank, net proceeds	339	0	0
	18.	Sold Cook and Co. 100 barrels crystal oil	104	2	0
		Received payment of acceptance No. 37	89	6	4
	19.	Purchased petroleum of B. Bright	204	10	0
		Paid him cheque	200	0	0
		,, bill at two months	300	0	0
	20.	Paid repairs to warehouse roof	18	1	6
	22.	Received payment of acceptance No. 38	256	8	8
	23.	Partners each drew out £50	100	0	0
	24.	Paid B. Bright	255	0	0
		Discount allowed by him	10	4	0
	25.	Paid sundry office expenses	3	18	0
		Sold D. Dale colza oil as per invoice	183	15	0
	26.	Received his acceptance at two months	190	0	0
	27.	Sold J. Pyke 80 gallons boiled oil	9	5	0
		Received of Gribble and Son on account	30	0	0
	29.	Received account sales Christiania consgt. and sight draft	350	0	0
		Paid bill No. 103	373	5	6
	30.	Paid wages for fortnight	9	1	0
		Received J. Pyke's cheque	40	0	0

		£	s.	d.
Jan. 30.	Bought new cart for cash	36	0	0
31.	Goods on consignment account at Christiania ...	116	10	0
	Stock on hand at cost	2,237	15	9
	Depreciation of movable plant	8	5	6
	Interest credited J. Cross on Capital...	13	5	6
	,, Henry Law ,, ...	14	13	4

Exercise XXIII. (*a*)

Make out from the following statement, "Debts Payable" and "Debts Receivable" Accounts (see page 287).

1895.

		£	s.	d.
March 1.	Debts Receivable—Gross £4,959			
	Allowance for B.D. 275 ——	4,684	0	0
	Owing by me to sundry creditors	2,576	0	0
31.	Credit purchases for month amounted to	2,941	0	0
	Additional allowance for doubtful debts	75	0	0
	Cash received during month on acct. sundry debtors	3,835	0	0
	Discounts allowed by me during month	87	0	0
	Credit sales for month amounted to...	3,047	0	0
	Returns inwards for month	67	0	0
	,, outwards ,, ...	49	0	0
	Paid cash to sundry people during month	3,249	0	0
	Was allowed discount amounting to	130	0	0
	Wrote off following debts as bad: Older £29, Lambe £17, Vaughan £41.			

Exercise XXIII. (*b*)

Enumerate several distinct causes of difficulty that may arise in the course of balancing Personal Accounts. Indicate your method of dealing with each, and show how all these methods are referable to certain clearly defined laws.

In particular give a specimen of a Personal Account needing reconciliation with the Statement of Account received, and point out various discrepancies between the two, and the probable explanation and mode of dealing with each.

Exercise XXIV.

(Adapted from a Commercial Arithmetic Paper set at Examination held in 1891 for *Scotch Leaving Certificates.*)

On 1st July, 1891, W. S. Gilbert contracts to buy of A. Sullivan a house for £300, to be paid for as follows: 10 per cent. deposit down, and the remainder by six equal half-yearly instalments, commencing 1st January, 1892, and together with each instalment further to pay half a year's interest at 5 per cent. on the unpaid balance of the purchase money. Assuming the contract to have been carried out, give the Personal Account headed "W. S. Gilbert" in A. Sullivan's Ledger. Pass the interest through the account.

LESSON XIV

GOODS.

CAPITAL busies itself in the production and distribution of Goods, and the value of the Goods on hand at any time during these processes forms part of Capital itself. Let us take the latter process first.

I. GOODS IN PROCESS OF DISTRIBUTION.

The record of the INcoming and OUTgoing of this part of Capital may be kept in one General Account, called "Goods" or "Merchandise," or in several accounts, and these latter may be specialised in any way and to any degree desired. A man who deals in a hundred or a thousand different kinds of goods may keep a hundred or a thousand different accounts if he so pleases, one for each kind. Again, he may send a selection of goods (perhaps of several different kinds) to another locality to be sold there, and he may desire to keep a special Goods account for these.

Thus we shall have to consider—

(*a*) *The keeping of a General Account* for all the Goods or Merchandise possessed by the merchant.

(*b*) *The keeping of Particular Goods Accounts*, these latter including "Adventure" and "Consignment" accounts.

(A.)—GENERAL GOODS ACCOUNTS.

If we glance at the type of a General Goods account given below, with which we are pretty familiar by this time, we shall see the *source* of the various entries contained in it, and *by examining each of these sources* in turn we shall understand how to keep this all-important record.

It is very seldom in practical life that a Journal leads the way to one General Goods account. In working an Examination Paper it may be much more convenient to work through a Journal, but in business it would usually be much less so.

Type of a

Dr. GENERAL GOODS ACCOUNT. *Cr.*

1. **Stock in Hand** (Balance Sheet)	4. **Cash Sales** (Cash Book)
2. **Cash Purchases** (Cash Book)	5. **Credit Sales** (Day Book)
3. **Credit Purchases** (Invoice Book)	6. **Returns out** (Returns Book)
7. **Returns in** (Returns Book)	8. **Stock in Hand** (Warehouse Book)

1. *Stock in Hand.* The Balance of Goods account to commence that period of time for which it is kept is found from the Balance Sheet of that date. The amount represents the actual value at that date of all the Goods possessed by the owner of the books. This amount was ascertained by "*Taking Stock*," a process which we shall have occasion to explain later on.

2. *Cash Purchases.* The source of this entry is the column in the Cash Book specially set apart for this purpose (see Lesson XI). If Cash Purchases are not numerous enough to demand a special column, they must be posted to a separate account called "*Cash Purchases account.*" This account is then "*subsidiary*" to "*Goods*," and the balance is transferred just before balancing "Goods."

Dr. CASH PURCHASES. *Cr.*

1895		£	s.	d.	1895		£	s.	d.
Jan. 7.	To Cash ...	18	10	0	Jan. 31.	By Transfer ...	50	0	10
14.	,, ,, ...	7	4	6					
21.	,, ,, ...	12	15	4					
28.	,, ,, ...	11	11	0					
		50	0	10			50	0	10

INVOICE BOOK.

3. *Credit Purchases.* The source of this entry is the *Invoice Book.* This may be ruled in a variety of ways.

Example I.

Outer column for Totals.

Invoice Book.

	£	s.	d.	£	s.	d.
Messrs. Anderson and Co., Glasgow, *Cr.*						
3 Pieces Silk, 13, 15, 15, at 3/1 ...	6	12	7			
7 Pairs Curtains at 62/-	21	14	0	28	6	7
Messrs. Tamkin and Co., Leeds, *Cr.*						
5 Pieces Cloth, each 18 yards, at 2/3...	10	2	6			
2 ,, ,, 16 ,, 3/6...	5	12	0	15	14	6
&c. &c. &c.				326	11	9
Goods A/ct, Dr. To Credit Purchases				370	12	10

Sometimes a large book is used like a large Scrap book, and the actual Invoices received are *pasted* in this book, a margin being left for entering the totals in such a way that they can be periodically cast, so that the totals may be posted to Goods account.

Example II.

The actual "Invoices" pasted in.

Invoice Book.

Glasgow, *Jan.* 1, 1895.

Messrs. A. B. and Co.

To Messrs. J. W. Anderson and Co.

	£	s.	d.	£	s.	d.
3 Pieces Silk, 13, 15, 15 = 43 at 3/1...	6	12	7			
7 Pairs Curtains at 62/-	21	14	0			
	28	6	7	28	6	7

Leeds, *Jan.* 1, 1895.

Messrs. A. B. and Co.

To E. Tamkin and Co.,
108 Stowgate Street,
&c.

5 Pieces Cloth, 18 yards, at 2/3 ...	10	2	6			
2 ,, 16 ,, 3/6 ...	5	12	0			
	15	14	6	15	14	6

&c., &c.	326	11	9	
Goods Account, Dr. To Credit Purchases... ...	£370	12	10	

EXAMPLE III.

A simple list of Invoices.

INVOICE BOOK.

Date.	Folio.	Name.	Place.	Dept.	Amount.	Terms.
					£ s. d.	
1895 Jan. 1	17	Anderson ...	Glasgow	A	28 6 7	2½ Monthly
,,	83	Tamkin ...	Leeds	D	15 14 6	Monthly net
		&c.	&c.		326 11 9	
31	P.L. 52	**Goods Account, Dr. To Credit Purchases ...**			370 12 10	

EXAMPLE IV.

Do without an Invoice Book!

Mr. J. D. Nicholls has published a *Manual of Bookkeeping Simplified* in which he suggests the total abolition of the Invoice Book, and its sequel the Bought Ledger. He would have "Purchases" posted into the Goods account from a column in the Cash Book, headed "Accounts paid for Goods bought," the Invoices themselves being carefully kept in locked-up drawers. In order to obtain in Goods account the *full* amount of Credit purchases, including accounts unpaid, a list of these latter would be made out in a small book (from the Invoices themselves) at the end of each balancing period, and the total of this list being entered on the Dr. side of "Goods," this account would then contain the full amount of Credit purchases for the period.

The system, which is worked out with much care and ingenuity in Mr. Nicholls's Manual, possesses many undoubted advantages, and might in certain businesses save a large amount of clerical labour. I refer to it here chiefly because it is very important that you who are students of the subject should learn

to distinguish between the essential and the accidental, and to fix it in your minds that nothing ought to be regarded as essential to a true system of Bookkeeping (not even an Invoice Book), provided that its absence does not interfere with the record of the twofold effect of each transaction.

With regard to the General Goods account, it matters little how the sum total of Purchases finds its way in, so long as it does get in. A very common way is to open an account for Purchases, subsidiary to Goods, thus :—

Dr. PURCHASES ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
Jan. 31. To Cash Purchases	50	0	10	Jan. 31. By Returns...	12	3	8
,, ,, ,, Credit ,,	370	12	10				

This account is balanced before Goods account, and the balance "transferred."

4. *Cash Sales.* This amount is transferred from the Cash Book, either directly or through the medium of Cash Sales account. The latter may be kept in columns for successive years, thus affording the basis for a very useful *comparison.*

EXAMPLE.

CASH SALES.

Folio.	1895			1896			1897		
	£	s.	d.	£	s.	d.	£	s.	d.
January	150	10	10	160	16	2	218	18	3
February...	166	8	1	192	6	8			
March	161	6	3	191	18	0			
April	109	2	7	152	6	6			
May	88	12	11	101	7	8			
June	76	19	4	94	8	7			
Goods Account Cr. ...									

Or the account might be kept in *Dr.* and *Cr.* form if desired

DAY BOOK.

5. *Credit Sales.* The source of these is the book that has been variously named Day Book, Sold Book, Credit Sales Book, &c. The last title is the best designation, but the first has become so established by custom that it may be as well to stick to it.

The method of ruling the Day Book varies almost as much as the nature of the Goods the sales of which are therein recorded. Not only does every distinct business deal in articles of Merchandise differing from those of other businesses in some features which call for a special kind of entry in the Day Book, but almost every business man has his own ideas as to what particulars are and what are not necessary to be recorded.

As students of Bookkeeping you should be prepared not only to understand any particular variety of Day Book that may come across your notice, but also to draw up a scheme for a Day Book for any special requirements. It may be as well therefore to consider briefly what are the leading principles upon which to act in such a case.

It is hardly necessary to mention the necessity of providing in some way for entering the date, name, and full address, amount of each article sold, total amount of each sale, and Ledger folio. But there is room for some variety of opinion as to the best arrangements for entering these.

The date may be at the head of each page, or a column may be left for it, or it may be repeated at the head of each entry thus:—

17

The name and address may be at the head of each entry or in a column specially provided for the purpose. The totals for each sale may be in the same column as the items, or in a special column, and the column for the Ledger folio as well as

all the other columns may be arranged *in any order* that may be thought *most convenient.* If I choose to enter amounts first, and dates at the foot of each page, I am not thereby violating any of the fundamental principles of bookkeeping. These things are purely matters of convenience.

There is room for still more difference of opinion and practice when we come to the question of how to arrange for entering particulars of the Goods sold. The following points must be noted. The "Particulars" entered must in each case be—

(i.) *Exact.*
  (*a*) In order to prove claim in case of need.
  (*b*) In case of "repeat orders."

(ii.) *Concise.*
  In order to avoid needless clerical labour.

(iii.) *Clear.*
  So that all those who have access to the book may understand them.

That arrangement of the book is the best which most easily lends itself to the carrying out of these three points.

The *Tabular method* presents many conveniences, and is especially useful when there are but few kinds of articles sold, or when certain kinds of sales are constantly repeating themselves.

DAY BOOK, Monday, March 4th, 1895.

Ledger Folio.	Name.	Particulars.	Total.	Coal.	Gravel.	Lime.
			£	£	£	£
	Cooper, A. B. ...	Description ...	37	17	12	8
	Jackson, S. W...	Ditto ...	104	82	6	16
	Martin, B. L. ...	Ditto ...	87	18	19	50
	Simpson, R. T...	Ditto ...	65	33	22	10
	Sundry other	*Entries* ...	2,798	1,263	1,400	125
	Coal a/ct Cr.	By Credit Sales		1,413		
	Gravel a/ct Cr.	,, ,, ,,			1,459	
	Lime a/ct Cr.	,, ,, ,,				209

The Day Book is, as you have already learnt, merely an adjunct to the Journal. It is indeed often made to do the work of a Journal in other ways. In some houses it is the only "debiting" book of the establishment, and I can see no reason why any business that finds this a convenient usage should abandon it, provided only that it has columns to distinguish between debits for Goods sold and debits of other kinds.

Suppose for example that I have a business where I supply goods and also labour, and that I make the debits for these in one book. These entries should not be made indiscriminately, but should be sorted into columns as in the following example.

DAY BOOK.

January, 1895.

Total Amount.	Ledger Folio.	Particulars.	Debits for Goods Sold.	Debits for Work Done.
		1		
£ s. d.		John Smith.	£ s. d.	£ s. d.
3 15 6		Particulars	1 4 6	
		,, ...	0 8 9	
		,, ...		2 2 3
		2		
6 3 4		A. Brown.		
		Particulars	2 12 4	
		,, ...	2 12 6	
		,, ...		0 18 6
		31		
482 10 11		Sundry other Entries ...	181 1 4	301 9 7
		31		
492 9 9		Sales Account *Cr.* ...	187 19 5	
		P. and L. *Cr.*		304 10 4

6. and 7. *Returns.* Goods are often "*returned*" by the receiver to the seller. There may be various reasons for this. These may be summed up under two heads—

(i) *Not according to order.*

(*a*) Inferior quality to those shown as sample, or to those purchased before, or to what I had a reason to expect.

(*b*) Damaged in transit.

(*c*) Wrong style or pattern, &c. &c.

(ii) *With request to exchange for others.*

In this latter case the Goods are returned by favour of the seller, who is not obliged to receive them back, if they are exactly as ordered.

When instances of this kind are very rare, or bear a very small proportion to the total amount of business done, they are sometimes entered in Day Book and Invoice Book. That is to say, Goods returned *by me* are entered in the Day Book (as if they were Sales), and Goods returned to me are entered in the Invoice Book (as though they were Purchases).

The objection to this practice is twofold :—

(1) It gives a misleading idea of the total amount of Sales and Purchases during any given period.

(2) It interferes with the correctness of "Debts Receivable" and "Debts Payable" account, unless a special analysis of these "Returns" entries is carefully made at balancing time, and the totals of D.B. and I.B. posted accordingly.

When "Returns" are few and far between, and separate books are not necessary, it would be better to make Journal entries of them.

When Day Book and Returns Book have both had their Totals posted, "Sales a/c" will appear as under

Dr. SALES ACCOUNT. *Cr.*

To Returns		By Cash Sales	
		,, Credit Sales	

Purchases and Sales account are of course both "subsidiary" to Goods account, and are "closed into it," by transfer entry in the Journal. Goods a/c then appears in the following neat and compendious form :—

Dr. GOODS. *Cr.*

1895	£	s.	d.	1895	£	s.	d.
Jan. 1. To Balance ...	1,000	0	0	Jan. 31. By Sales ...	1,742	4	8
31. ,, Purchases	1,241	10	6				

Supposing that it should be desired to do so, the above a/c could be set forth (for the information and guidance of partners in a firm, for instance) with all the details from the subsidiary accounts embodied therein by means of extra columns :

GOODS ACCOUNT (*Dr. side*).

1895		£ s. d.	£ s. d.	£ s. d.
Jan. 1.	To Balance			1,000 0 0
	Purchases as under			
	Cash Purchases...	121 10 1		
	Credit Purchases .	1,164 2 7	1,285 12 8	
	Less Returns ...		44 2 2	1,241 10 6

GOODS ACCOUNT (*Cr. side*).

1895		£ s. d.	£ s. d.	£ s. d.
Jan. 31	By Sales as under			
	viz. Cash Sales	528 0 9		
	Credit Sales	1,238 15 2	1,766 15 11	
	Less Returns		24 11 3	1,742 4 8

8. *Stock Valuation.* We now come to the important question—that perpetual stumbling-block to beginners, the Pons Asinorum of Bookkeeping—How are we to balance Goods a/c ?

The whole thing is simple enough in the light of the principles we have already studied. Goods account is a Property account, and by Rule A it must be "adjusted" by independent valuation, the balance or discrepancy between actual value and book value being transferred by Journal entry to Profit and Loss account. The actual value is of course found by valuation of unsold stock.

The student of Bookkeeping has very little to do with this tiresome process, so vexing to the soul of the busy trader. Yet as your advice may be asked on the subject one of these days, it may not be out of place to give one or two hints.

HINTS ON STOCKTAKING.

(1) *Do it quickly.* This avoids the confusion resulting from the INcoming and OUTgoing of Goods during the process. You want to know the Value of Stock at the close of a certain day (say Dec. 31). You must therefore *include* all Goods sold and *exclude* all Goods purchased during Stocktaking. This needs care.

(2) *Do it carefully and accurately.* The inadvertent omission of a whole shelf, or cupboard, or room, or the accidental double valuation of a certain section or department, would be a matter of the highest importance. It is useful to have a **Valuation Book**, ruled in columns for successive years, and to enter the same lot or section of Goods on the same line year after year, thus :—

	1894.			1895.	1896.
	£	s.	d.		
Dept. A. Section 1 ...	67	10	6		
,, ,, ,, 2 ...	23	2	5		
,, ,, ,, 3 ...	68	14	6		
,, ,, ,, 4 ...	100	11	0		

This forms the basis for a very useful *comparison*, besides ensuring that nothing is overlooked or entered twice.

Caution.—Be careful also to *include* in the valuation all *Goods bought but not yet received*, and to *exclude* all *Goods sold but not yet sent out.*

(3) *Do not over-estimate the value.* Of course not. Never take Goods at over cost price, even if their market value has risen. Value them usually at less, and make *ample allowance* for depreciation from any and every cause.

(4) *Do not under-estimate the value.* Some very prudent souls, in the exuberance of their determination not to overvalue, rush into the opposite extreme and take stock at auction prices. This is a great error. "But it is not a dangerous one," my friend urges. Certainly it is, and the insidious danger lurks just here. Your extreme undervaluation the first year shows an *attenuated profit* (say £100). "The error corrects itself the second year," you say. Not exactly. The second year, valuing on the same scale, you see the *natural profit* (say £300). Perhaps the third year you call in a friend or a professional valuer (a commendable plan), who gives a true valuation, and thus shows an *exaggerated profit* (say £500). Look how my business is getting on, you think. I must take another shop. But the truth is, the business has been for three years at an absolute standstill, the error of the *first* year not being corrected until the *third.*

All this is clearly shown by the following diagram.

	Apparent Profit.	Real Profit.	Remarks.
1st Year	£100	£300	Stock at end of year valued at £1,800 instead of £2,000.
2nd Year	£300	£300	Here the true profit is shown, because stock was equally undervalued at beginning and end of year.
3rd Year	£500	£300	Here stock was undervalued at beginning of year, and correctly valued at end, thus correcting the error of the first year.

The above illustration is well worth the attention of the thoughtful student.

QUANTITIES.

Whenever the nature of the business admits of the plan, it is most desirable to keep a record of quantities IN and quantities OUT. This can be kept in a separate book used for this purpose called a Warehouse or Stock book, or by means of additional columns ruled in Goods account in the Ledger. It is clear that in this way a useful check is kept on loss by theft, or carelessness.

Notice however that this method does not at all obviate the necessity for stocktaking by independent valuation, though it very much facilitates that process, and considerably reduces the chance of error.

Notice also, that if Quantity columns are kept in Goods account, it follows that quantity columns (on the same plan) must be kept in each of the accounts that are *subsidiary* to Goods (*e.g.* Sales account)—and, further, that the same columns will be required in each of the books of original entry leading up to these accounts.

Suppose for instance that I have dealings in three distinct classes of Goods A, B, and C, and that I wish to keep a record of the IN coming and OUT going of the quantities of each, this could be done by the method illustrated below.

By balancing the Quantity columns at the end of the usual period, I see that I ought to have in stock 182 (Bales, Boxes, Dozens . . .) of A, 9 of B, and 61 of C. If my Warehouse or Stock book agrees with this, well and good. If not (and the discrepancy cannot be traced), I must make a Journal entry as under :—

P. & L., Dr.
To Goods a/ct Cr.

(for 1 dozen class A deficiency at Stocktaking)

ILLUSTRATION.

DAY BOOK.

	Quantity.			£ s. d.
	A.	B.	C.	
J. Jones	14	20	...	
E. Brown ...	6	16	10	
G. Robinson ...	...	12	20	
Goods, Cr. ...	20	48	30	

INVOICE BOOK.

	Quantity.			£ s. d.
	A.	B.	C.	
J. White	16	18		
A. Black ...	50	...	30	
W. Green...	48	12	...	
Goods, Dr.	98	28	48	

Dr. CASH BOOK. *Cr.*

	Quantity.			£ s. d.
	A.	B.	C.	
Balance	...	...	...	78 5 6
Abraham ...	...	...	...	
Goods	10	5	20	
&c.				

	Quantity.			£ s. d.
	A.	B.	C.	
Jackson ...	...	...	...	
&c.				
Goods ...	...	12	...	
Johnson ...	...	...	...	
&c.				

Dr. GOODS ACCOUNT. *Cr.*

	Quantity.			£ s. d.		Quantity.			£ s. d.
	A.	B.	C.			A.	B.	C.	
Stock	114	22	63		Credit Sales	20	48	30	
Credit Purchases.	98	28	48		Cash Sales	10	5	20	
Cash Purchases...	...	12	...		Stock ...	181	9	61	
					Deficiency...	1	...	...	

VALUATION WITHOUT STOCKTAKING.

Whenever the percentage of profit on sales is fixed (or only variable within narrow limits), an approximate valuation of Stock may be obtained without the labour of stocktaking.

Let us suppose that a certain trader sells his Goods at a profit of 25 per cent.

PROFIT ON SALES.

Here we must let our illustration wait while we diverge for a moment to consider how the profits on Sales are reckoned. When we say "*a profit of 25 per cent.*" do we mean 25 per cent. on the Cost or on the Selling price?

In arithmetical questions of profit and loss, percentage is always reckoned on the Cost, but in commercial life it is often reckoned on the Selling prices, and you may not see all at once the importance of the distinction.

A.B. buys goods for £100 and sells them for £125. His gain is £25: that is very clear, but what is the percentage?

$$\begin{cases} £25 \text{ is } \frac{1}{4} \text{ of } £100 \text{ (Cost)} = 25 \text{ per cent.} \\ £25 \text{ is } \frac{1}{5} \text{ of } £125 \text{ (Selling)} = 20 \text{ per cent.} \end{cases}$$

So that we see 25 per cent. on the *Cost* = 20 per cent. on the *Selling*. It is equally correct therefore to say that A.B. sells goods at a profit of 20 per cent. and to say that he sells them at a profit of 25 per cent., *if only we take care that we understand and make clear to others what we mean when we use these expressions.*

The *difference* is precisely analogous to the difference between Interest and True Discount which we spoke of on p. 282. If 25 per cent. is reckoned on the net or Cost, it amounts to $\frac{1}{4}$th of the outlay. If *on the gross*, the profit amounts to $\frac{1}{3}$rd of the outlay. The *difference* is $\frac{1}{3}$rd of $\frac{1}{4}$th, or

$\frac{1}{4}$th of $\frac{1}{3}$rd = $\frac{1}{12}$th : $33\frac{1}{3}$ per cent. on cost = $\frac{1}{3}$ of outlay ; $33\frac{1}{3}$ per cent. on sale price = 50 per cent. on outlay = $\frac{1}{2}$. Hence the difference between reckoning $33\frac{1}{3}$ per cent. on Cost and on Selling price is $\frac{1}{3}$ of $\frac{1}{2} = \frac{1}{6}$. It will be seen from the above that the difference between reckoning profits on Cost and on Selling prices is *the product of the two fractions representing those two profits respectively*, and that this difference is much greater *in proportion* when profits are high than when they are low.

A. B., then, sells his Goods at a profit of 25 % *on the Cost.* That is to say, one-sixth of the *Sales* may be reckoned as profit.

Now suppose that his books are accurately kept and punctually posted up. On Jan. 1 he "takes Stock," and finds his Goods are worth £4000.

Add Purchases during Jany. from Invoice Book, &c.		750
		4750
Sales during January from Day Book, Cash Book, &c.	£865	
Less 20 per cent. for profit	173	
Deduct net Value of Goods sold		692
Value of Stock on Jan. 31		£4058

This is a very useful plan in many trades, but it is important to remember that where the profits vary to any extent this method is quite inadmissible, and that in any case it needs checking by actual Stocktaking as often as practicable.

B. SPECIAL GOODS ACCOUNTS.

We have next to consider the keeping of Particular Goods Accounts, including "Adventure" and "Consignment" Accounts.

When a merchant or trader wishes to keep more than one Goods account, he may do this either by Journalising or by introducing into his Day Book, Invoice Book, &c., a distinct column for each kind of Goods he wishes to specialise.

It will occur to you at once that this multiplication of Goods accounts makes a great deal of extra work. *What is the good of it?* The object is to be able to tell the amount of profit on each branch of his business, so that he may extend his operations as rapidly as possible with the most remunerative departments, and examine and control any that may show a loss.

As the method of keeping these special goods accounts is precisely like that of keeping a General Goods account, no further illustrations are needed on this point.

There are however certain accounts of this class that will need special attention.

CONSIGNMENTS.

When a merchant consigns goods to another merchant in a foreign country, to be sold "on his own account and risk," this transaction does not represent a sale of Goods. "Goods" go OUT, but *Value* does not. The goods are merely sent out of the merchant's warehouse, and intrusted to the care of some one who acts as the *agent.*

If I ask an Agent to sell Goods for me, I do not cease thereby to be the owner of these Goods. He does not "owe me" for them, and therefore I do not "debit" him. If, however, my Agent succeeds in selling my Goods, he is responsible to me for the money, and immediately I "debit" him, for "*he owes me.*" If he buys Goods for me, I credit him. I must also either pay him or credit him for his services. When I myself act as Agent for another man, I credit him when I sell Goods for him, and debit him when I buy them, besides charging him *Commission* for my services in both cases. But when I receive Goods from him to be sold *for him* I neither debit nor credit him, for the Goods are still considered to be in his possession. I am merely taking charge of them whilst I am trying to carry out his wishes about them. For the same reason (as was explained before), when I send a Bill

to the Bank for collection, I do *not* debit the Bank until I hear that they have received payment. If I send goods to an Auction Mart to be sold for me, I should *not* debit the Auctioneer until the Goods are sold. Nor would the Auctioneer credit me until he had sold them for me. The Auctioneer is merely acting as my Agent. And in the same way the Consign*ee* acts as the *Agent* of the Consign*or*.

When Goods are sent from one place to another the sender is called the Consign*or*, the person to whom the Goods are sent is called the Consign*ee*, and the Goods themselves the *Consignment*. These terms are seldom used except with reference to foreign trade.

We shall now proceed to examine in detail

I. Consignments *to order*.

II. Consignments *on account and risk of the Consignor*.

III. *Joint* Adventures.

We shall find it help us to use the last two letters of the words Consign*or* and Consign*ee* as the initials of these parties respectively, and we may suppose these letters to stand for *O*wen *R*obinson, Consignor, and *E*dward *E*astman, Consignee.

I. *Consignments to order.*

When Goods are consigned according to order of E.E. the transaction is simply an ordinary Sale and Purchase, and the total amount of the Invoice may be at once entered by E.E. as a *debit* either to a General or Special Goods account as desired (crediting O.R.). O.R., for his part, debits E.E. and credits Goods.

The "*Invoice*" referred to above is worth our attention, as it differs in several points from an ordinary inland invoice, and it contains some items which we must try to understand before we go further.

Invoice of Goods shipped by O.R. on board the "Ladas" (Captn. J. Roseberry) for Auckland by order and for account and risk of E.E. merchant of that place.

Marks.		£	s.	d.	£	s.	d.
E. E. & C.	400 Cases Soap weighing ——— (Pears & Co.) @ 25/– ...	500	0	0			
1 to 100	100 Cases Cocoa @ 18/– (Fry & Co.)	90	0	0	590	0	0
	CHARGES.						
(1)	Freight	32	5	0			
	Dock Charges	10	12	6			
	Petty Expenses	1	2	6			
	Carriage	15	10	0			
(2)	Insurance	7	0	0			
	Policy Stamp		2	0	66	12	0
					656	12	0
(3)	Commission 5 %				32	16	7
					689	8	7

London, *Jan.* 15, 1895

(4) E. & O. E
(Signed)
OWEN ROBINSON.

NOTE (1) EXPENSES.

When miscellaneous charges of the kind indicated above are incurred but not paid, it is customary to open an account headed "Outstanding Charges Account." This is really a collective personal account (see Lesson IX.), and consists of the sum of a number of small "debts payable" collected for convenience under one heading.

Then, when subsequent payment is made, "Outstanding Charges Account" is debited and Cash credited.

NOTE (2) INSURANCE.

When Goods are sent by sea there is some risk that they may be lost or damaged in transit. To avoid this risk they are insured for a sum that amply covers the value of the goods. The amount paid for this insurance is called the **premium.** This premium is a small but certain loss, willingly incurred by the proprietor of the goods to avoid a large but uncertain loss.

The person who pays the premium is called the **Insured,** and the one

who guarantees against loss is the **Insurer** or **Underwriter**. The stamped and signed agreement is called a **Policy**. This may be either (i) a **Running** or **Open Policy**, in which the value of the thing insured is not stated but is left to be proved afterwards, or (ii) a **Valued Policy**, in which the value of the things insured is definitely stated.

The premium is not often paid in cash, and even when it is, the best way of entering the transaction is to *pass it through* the account of the Insurance Company, that is, first to credit them for the policy and then to debit them for the cash.

Suppose I insure goods of my own, value £1000, the premium being £10. I enter as follows :—

Dr.	INSURANCE CO.	*Cr.*	*Dr.*	P. & L.	*Cr.*
		£10 0 0	£10 0 0		

Suppose that (*before* I have paid the Cash to the Insurance Co.) the goods are all lost, I make the additional entries.

Dr.	INSURANCE CO.	*Cr.*	*Dr.*	GOODS.	*Cr.*
£1000 0 0	£10 0 0				£1000 0 0

Then when the Insurance Co. pay me the Cash I enter

Dr.	INSURANCE.	*Cr.*	*Dr.*	CASH.	*Cr.*
£1000 0 0	£10 0 0 990 0 0		£990 0 0		
£1000 0 0	£1000 0 0				

If I insure goods on behalf of some one else (say A. B.), then of course I debit A. B. with the premium instead of myself (*i.e.* P. & L.)

If I have a large number of Interest transactions, I should open a *sub-*

sidiary account for Interest, which would be *closed into* P. and L. at balancing time.

NOTE (3) COMMISSION.

The Merchant who acts as an *Agent*, that is, who buys and sells goods not on his own account but on account of other people, does not make his profit by buying at one price and selling at another. He makes his profit by charging a certain percentage on the gross amount of the sale or purchase. In the specimen Invoice given the commission is 5 per cent., and this is charged, not on £590, the net cost, but on £656 12*s.*, the gross cost, including expenses.

Commission account is subsidiary to P. and L., and must be closed into it before balancing.

Del Credere Commission will be noticed later on.

NOTE (4).

E. and O.E. = Errors and Omissions excepted.

II. *Consignments on account and risk of the Consignor.*

Open the folded diagram at the end of this book and let me pilot you through the six transactions with the entries resulting therefrom, which I have there set forth in tabular form so that they can be readily fixed in the mind.

(1) Goods despatched and received.

On March 1st O.R. of London consigns 100 *bales of Goods to E.E. of Wonderland on his own account and risk. These Goods are invoiced at* £1000. *Shipping charges paid by O.R.* £43. *Insured with Royal Insurance Co. for* £1250 *at* £2 *per cent.* (*On arrival E.E. incurs charges* £50.)

O.R. in despatching these goods to E.E. does not debit E.E. He has not effected the Exchange: Debts IN, Goods OUT. He has merely transferred a portion of his own stock of Goods from one spot to another. He therefore opens a subordinate Goods account, which he calls Adventure account, and this he debits with Goods and Expenses, crediting at the same time (1) his general Goods account for the value of the goods, (2) his Cash account for the charges *if paid* (or his Outstanding Charges account *if not*), (3) Cash account for

the Insurance premium *if paid* (or Insurance Company *if not*).

His Adventure account (see chart) now stands thus :—

Dr. ADVENTURE TO WONDERLAND. *Cr.*

		£	s.	d.
Mar. 1.	To Goods	1000	0	0
,,	,, Charges	43	0	0
,,	,, Insurance	25	0	0

When E.E. receives these goods he does **not** credit O.R. in his books, and would make no entry at all of the matter (except in a memorandum book) were it not for the fact that he has incurred certain charges at his end. He therefore opens an account headed "*Consignment of* 100 *Bales——from O.R. London*," and debits this account with the expenses. Very likely the actual heading in E.E.'s books would be even longer than that given above, but you and I in talking about it will shorten it for convenience' sake, and call it simply "*O.R.'s consignment a/ct.*"

Now let us ask two questions: (1) Why does not E.E. at once debit O.R. with this £50, since he has paid the money on O.R.'s account, so that O.R. *owes* him that amount, and will eventually (in some shape or other) have to pay him? Turn back to Lesson VIII. and you will there see the principle (of which this is an application) explained. "O.R.'s Consignment account" is a *subsidiary* account. It will by and bye be *closed into* the main account, which is called "*O.R.'s Current Account.*" O.R. may possibly send several distinct Consignments to E.E., who would keep just as many distinct accounts, each of them subsidiary to the main account. Then when each of these lesser streams have been diverted into the main channel, O.R.'s current account would look something like this:—

Dr. O. R. CURRENT ACCOUNT. *Cr.*

To Cash	£500	By Net Proceeds Consignment Sugar	£143
		,, ,, ,, Tallow	251
		,, ,, ,, Hops	468

You see how much better and clearer this plan is than to load up O.R.'s account with masses of details in indiscriminate order.

Now for our second question. (2) Why does not O.R. enter this £50 in his books? I have been looking on the chart, and I see no notice of it anywhere, either in his Journal or Ledger. Just wait a bit. Meanwhile—*think.*

(2) Part payment in anticipation.

O.R. draws on E.E. at 3 months for £500 as advance against the above consignment, and discounts the bill for £490.

The Consignor of the goods needs ready money to carry on and develop the ordinary operations of his trade. He therefore asks E.E. to advance a certain sum considerably less than the full value. This is usually done by O.R. drawing on E.E and then selling the draft subject to discount. O.R. does not now credit Adventure account, as might perhaps be supposed. Value has not yet gone OUT from this account, but value has gone OUT (see Lesson IV.) from E.E.'s account. He therefore credits E.E. For the same reason E.E. does not debit O.R.'s Consignment account, but O.R.'s Current account.

BILLS OF LADING.

When O.R. applies to the Bank to cash his draft on E.E. they will probably ask for the *Bill of Lading* as collateral security. The Bill of

Lading is in reality the Captain's receipt for (and promise to deliver) the goods entrusted to his care.

C. D. 100 Cases numbered 1 to 100	Shipped in good order and well-conditioned by ——— in and upon the good Steamship called the ——— whereof is master for the present Voyage ——— and now riding at anchor in ——— and bound for ——— 100 *Cases* being marked and numbered as in the margin, and are to be delivered in the like good order and well-conditioned at the aforesaid port of ——— (the Act of God, the Queen's enemies, fire, machinery, boilers, steam, and all and every other dangers and accidents of the seas, rivers, and navigation of whatever nature and kind soever excepted) unto ——— or to his Assigns, Freight for the said goods paid ——— with Primage and Average accustomed. In Witness whereof the Master or Purser of the said ship hath affirmed to ——— Bills of Lading all of this tenor and date, the one of which bills being accomplished the others to stand void. Dated in ——— Weight and Contents unknown.

Collateral securities are often called for brevity *collaterals*. Any document (such as the above) deposited with a creditor as additional security for repayment of the debt is a collateral security. The Bill of Lading is the paper representative of the actual goods that have been shipped. It can be transferred from hand to hand by simple endorsement like a Bill of Exchange. In the case we have imagined above, O.R.'s draft on E.E. would be attached by the banker or bill discounter to the bill of lading, and the two forwarded to the banker's correspondent in Wonderland, by whom the draft would be presented for E.E.'s acceptance, the bill of lading not being given up until the acceptance had been paid (or retired).

(3) Consignment sold.

E.E. sells goods consigned from O.R., London, to X. Y. Z. for £1,250. Brokerage, &c. £25.

When E.E. sells these goods he credits, not O.R.'s account current, but O.R.'s consignment account, which by this time will appear in his books as under :—

(O.R.'s CONSIGNMENT.)

Dr. Consignment of 100 Bales ——————— on account and risk of Owen Robinson, of London. *Cr.*

(1) To Charges	...	£50	0	0	(3) By Sales	... ...	£1,250
(3) ,, do.	..	25	0	0			

O.R. of course makes no entry of this transaction at present, as he cannot know of it until E.E. informs him. This E.E. does in the manner described below.

(4) Account Sales sent and received.

E.E. prepares Account Sales (*see folded chart*) *charging Interest* £1 10*s.*, *Commission* $2\frac{1}{2}$°/₀, *Del Credere ditto* $2\frac{1}{2}$°/₀, *Net proceeds* £1,111. *This he forwards to O.R., by whom it is duly received.*

Now at last E.E. sits down to prepare his statement for O.R. First he has to guard himself against loss, and next he has to think of his own profit. To protect himself from loss he charges O.R.'s Consignment account with £1 10*s.* for interest on the money he has expended. Next he charges $2\frac{1}{2}$°/₀ Commission on the gross amount of Sales to recompense him for his trouble, and then an extra $2\frac{1}{2}$°/₀ for *Del Credere*, as a sort of premium of insurance against bad debts. When E.E. charges a *del Credere* commission he guarantees O.R. against loss in case the purchaser of the goods fails to pay. O.R. can therefore take the *Account Sales* as a final and definite statement.

Notice that the expenses on the account sales are *specified.* Notice also that E.E. has *already* debited these, and therefore only needs now to debit Interest and Commission.

Figure to yourself the eagerness with which O.R. awaits the arrival of the foreign mail from Wonderland, and the haste with which he breaks the seal to see the result of his "*Adventure.*" Probably the first thing that attracts his attention is the **net proceeds** (N/P). Then he examines minutely the list of expenses and deductions of all kinds that eat up his profits.

Consider now what entries he is to make to record the facts thus first brought within his ken. The *Goods in Wonderland account* (or as we call it Adventure account) has had Value OUT £1,250. On the other hand sundry expenses and losses *by means of which* a sale was effected may fairly be considered to have increased the Value of this branch Goods Account. These represent therefore "Adventure account—Value IN £139." What about the balance of £1,111? This represents increased Value of another part of O.R.'s property, as I am sure you will with a moment's thought perceive. E.E. in fact sends this statement to O.R. for *the very purpose* of admitting and declaring his own responsibility to O.R. O.R. will therefore accurately exhibit the facts in his own books if on receipt of "Account Sales" he enters—

Dr. ADVENTURE ACCOUNT. *Cr.*

	£		£
Previous Entries	1,000	Sales	1,250
	43		
	25		
Expenses	139		

Dr. E.E. *Cr.*

	£		£
Sales	1,250	Bill ...	500
		Expenses	139

It will manifestly however *come to the same thing* if the expenses are omitted and the **net proceeds** entered instead of the *gross*. Thus you see we have now answered the question about the £50 which aroused our curiosity a page or two back. For the entries actually made are for the **net proceeds** only, which would have been £50 higher were it not for the expenses in question.

(5) Closing the Accounts.

O.R. closes his "Adventure account," and E.E. closes his "Consignment account."

There is no reason at all why they should not do so, and every reason why they should. If you thoroughly understand

the nature and meaning of these two accounts, you will find no difficulty (as some students do) about closing them. O.R. closes his "Adventure account" into P. and L. *in order to show the net gain or loss* on this special operation, and E.E. closes "O.R.'s consignment account" into O.R.'s current account *because the former is subsidiary to the latter*, and the net proceeds arising out of this affair (so far as E.E. is concerned) belong, not to E.E. himself, the Agent, but to his principal, O.R.

Before we pass on to the final Act in our little drama, suppose we take (without permission) a private view of the respective Profit and Loss Accounts of O.R. and E.E.

O.R.'s Books.

Dr.	P. & L.		*Cr.*
	£		£
Discount	10	Adventure	43

E.E.'s Books.

Dr.	P. & L.		*Cr.*
			£ s. d.
		Int.	1 10 0
		Com.	62 10 0

E.E. seems to have had a little the best of it, for he has made £64 while O.R. has only made £33. But if goods worth £1,000 were sold for £1,250, where has the rest of the £250 vanished?

Charges at this end	£43	0	0
Insurance ,,	25	0	0
Charges at that end	75	0	0
Discounting bill	10	0	0
O.R.'s net gain	33	0	0
E.E.'s do.	64	0	0
	£250	0	0

You see the shipowners and the Insurance Company, besides a number of smaller people, all get a little picking out of the

business, so that O.R. comes rather badly off in the end. Let us hope his next Adventure will repay him better.

(6) Remittance to settle.

E.E. remits sight draft to settle, which O.R. duly receives.

This transaction is very similar to the one marked (2), and is of so simple a nature that little need be said about it.

O.R. Journalises :—

Cash Dr. To E.E.

E.E. Journalises

O.R. Dr. to Cash.

The whole series of transactions will be clearly understood by studying the folded chart at the end of this book, and can then be fixed in the memory by the aid of the following summary :—

O.R. DEBITS.	O.R. CREDITS.	TRANSACTIONS.	E.E. DEBITS.	E.E. CREDITS.
Adv.	Goods and Cash	1 Goods despatched and received	**Consgt.**	Cash Exps. only.
B. R. or Cash	E.E.	2 Advance	O.R.	B. P. or Cash
		3 Goods sold	X. Y. Z. or Cash.	**Consgt.**
E.E. N/P	**Adv.**	4 "Account Sales" rendered	**Consgt.**	Int. Com.
Adv. Bal.	P. & L.	5 Transfers	**Consgt.** Bal.	O.R.
Cash	E.E.	6 Settlement	O.R.	Cash

III. *Joint Adventures.*

The confusion that often troubles the mind of the young student with respect to the proper handling of Joint Adventures has two sources. The first is that a number of different technical names are given to these accounts, most of which mean the same thing. The second is that there are two entirely distinct ways of treating transactions coming under this head. I shall do my best to clear the subject of both these difficulties.

When a merchant undertakes to buy or sell goods, not solely on his own account and risk, but in union with others, then both risk and profit must be shared in proportions agreed upon beforehand. Goods bought for this purpose by the merchant who manages the affair cannot of course be debited to his general "Goods account." They do not represent "Value IN" to that account. To what account then shall they be debited?

Suppose the managing merchant (let us call him M.M.) has two partners in this little speculation, P. and Q., and it is agreed to share and share alike. Now on completion of the purchase of this lot of Goods (say £3,000 worth bought for Cash) Cash has plainly suffered an OUTgoing of Value £3,000. *What portions of M.M.'s property have had Value coming IN to that amount?* How would you make up his Balance Sheet if you had to do so at this moment? Before the purchase it stood thus :—

BALANCE SHEET.

LIABILITIES.		ASSETS.	
Capital	£5,000	Cash	£5,000

After the purchase we can only place £2,000 Cash under the head of Assets. Can we put £3,000 Goods? Certainly

not. Only one third of this lot of Goods belongs to M.M. He may therefore if he pleases say "Goods" £1,000. The other two-thirds of the Goods *belong to P. and Q.*, and if such a thing should happen as a *total loss* of these Goods (without insurance) then P. and Q. would each be *liable to M.M.* for their shares. Hence the true INcoming of Value is £2,000 of Debts Receivable, and the new balance sheet might appear in either of these two forms :—

BALANCE SHEET.

1st Form.

Liabilities.	Assets.	
	Cash	£2,000
	Goods for Joint Adventure...	1,000
	P.	1,000
	Q.	1,000

BALANCE SHEET.

2nd Form.

Liabilities.	Assets.	
	Cash	£2,000
	Joint Adventure, Self, P. and Q.	3,000

The entries in the above Balance Sheets give us the clue to the two methods of keeping Joint Adventure account.

The Adventure may be called

Joint Adventure
Adventure in Co.
Merchandise in Co.
Joint Speculation

or by any other similar title. The important thing is to understand the *exact meaning* of the record that stands in the books under any given title. It is clear that according to the *first* of the above forms "Joint Adventure" is merely a "special" Goods account, but according to the *second* form, it is an amalgamated account partly real and partly personal.

According to the first method each partner (including self) is debited with his *share* in the adventure and the expenses

appertaining thereto as soon as these are incurred, while each partner (including self) is separately credited with his *share* of the net proceeds (N/P), the balance of Joint Adventure account (which in this case means "*my share* in Joint Adventure") being of course taken to P. and L.

By the second method the cost and expenses are first debited to a united account (which is appropriately termed a *Joint* Account), the net proceeds, as soon as ascertained, are placed to the credit of this Joint account, and the balance of this account, when all is settled, is divided into shares according to arrangement, and transferred to each partner's current account, my own share going of course to P. and L.

The first method is more exact but more troublesome, especially if there should be repeated transactions involving constant subdivisions into shares. The second method is more convenient, as there is only one division into shares, at the close of the whole affair.

The diagram given over leaf will show the entries made by M.M. by either of these two methods, and the student will be able by comparing them to choose which he prefers, or to adopt either, as may be desired.

DIAGRAM OF

Accounts as kept by the Managing Merchant

First Method: SEPARATE ACCOUNTS.

(1) When the Goods are supplied and despatched.

What to Debit.	What to Credit.
1. "P." his share total cost.	1. Goods, if supplied out of stock. X.Y.Z., if bought from him. Partner, if bought from him. Cash or B.R., if bought thus.
2. "Q." his share total cost.	2. Cash, if paid ... ... Charges, if not paid ... Partner, if through him } for Expenses.
3. Adventure in Co. for my share of total cost. (Total cost = sum of the four credits opposite ☞)	3. Cash, if premium paid Insurance Co., if not } for Insurance.
	4. P. and L. or Commission } for my trouble.

(2) When an "advance" is received on account of the above.

Cash, for net proceeds of draft or bill.

1. "P." for his share.
2. "Q." for his share.
3. Adventure in Co., for my share.

(Or credit remitter in full and debit P., Q., &c., with cost of realisation.)

(3) When "Account Sales" are rendered.

Consignee (whether a Partner or not), if exported,
or
Purchaser, if imported,
or
Goods, if taken for Stock.

1. "P." for his share
2. "Q." for his share
3. Adv. my share

} Net Proceeds minus advance if already credited as above (No. 2).

(4) Closing the Accounts.

Adventure in Co., if a gain,
or
P. and L., if a loss.

P. and L., if a gain.
or
Adventure in Co., if a loss.

Balance of Partners' accounts will show their gains or losses without further entry.

JOINT ADVENTURES

(M.M.), the other partners being P. and Q.

Second Method: COLLECTIVE ACCOUNT.

(1) When the Goods are supplied and despatched.

WHAT TO DEBIT.	WHAT TO CREDIT.
Joint Adventure Account for total cost as shown by Credits opposite ☞	1. Cost ... 2. Expenses .. 3. Insurance... 4. Commission — As on left-hand page.

(2) When an "advance" is received on account of the above.

Cash, for net proceeds of bill.	Joint Adventure, net proceeds of bill.

(Or credit remitter in full and debit Joint Adventure with cost of realisation.)

(3) When "Account Sales" are rendered.

(As on page 332).	Joint Adventure, net proceeds, minus advance, if this was already credited as above (No. 2).

(4) Closing the Accounts.

Joint Adventure.	1. "P." for his share of gain. 2. "Q." for his share of gain. 3. P. and L., for my share of gain.

(Or *vice versâ* if a loss.)

If P. and Q. wish to enter the transaction in their own books, they can only do so on receipt of information from M.M., and their entries will be as follows :—

(1) *On hearing of despatch of goods by M.M.*

Adventure in Co. *Dr.* } for my share of
To M.M. } cost, &c.

(2) *On receipt of account Sales from M.M.*

M.M. *Dr.* } for my share of
To Adventure in Co. } net proceeds.

(3) *On closing the account.*

Adventure in Co. *Dr.* } for my share net
To P. and L. } profit.
(Or *vice versâ* if a loss.)

(4) *On settlement* (or on receipt of any advance money).

Cash *Dr.* }
To M.M. } for amount received.

(5) *On payment to M.M. my share of cost of Joint Adventure at starting.*

(i.) Instead of entry No. (1) enter { Adventure in Co. *Dr.* / To Cash

or

(ii.) If I have already made entry No. 1 { M.M. *Dr.* / To Cash.

It is quite reasonable that M.M. should desire each of his co-partners in this adventure to furnish him with funds for their share. If they do not do this, it would be only just for him to charge interest on the amount of his own capital (or credit) which he has employed on their behalf.

Having concluded our examination of the record of the INcomings and OUTgoings of that part of Capital which consists of Goods in process of Distribution, we now turn our attention to Goods in process of Production

II. GOODS IN PROCESS OF PRODUCTION.

(*a*) Manufacturer's Accounts.

We cannot attempt to explain these in detail, but we must not neglect to notice the principles that ought to guide us in keeping them, and the class of difficulties that may hinder or obscure the application of these principles.

With regard to all productive employments, the main questions asked are :—

(1) Does it pay?

(2) Which department pays best?

The more accurate and distinct the answers given by bookkeeping to these questions, the more valuable and complete is the record.

The first question can only be correctly answered by setting down the **total cost of production** against the total net proceeds. The total cost of production includes of course not only the cost of material but also the cost of the labour bestowed thereon. Therefore the Manufacturer's Goods account should show these two items on the *Dr.* side.

Dr.	GOODS IN MANUFACTURE.	*Cr.*
(1) Cost of Material ... (2) Cost of Labour bestowed thereon		

But this is not all. Many of the ordinary expenses of the business are absolutely essential to the production of the goods. They could not be made in the open air, they could not be made without machinery, the workers could not work without light and warmth, nor could the work be carried on properly without clerks and messengers. Now all these expenses come under the head of **Establishment charges,**

which term includes *Dead weight expenses* (rent, &c.) and *cost of unproductive labour* (clerks, &c.).

On the other hand there are some kinds of losses, such as Bad Debts, Discounts, &c., that have nothing whatever to do with the **Cost of Production.** How then shall we arrive at the total amount of this cost? Shall we endeavour to *sort out* each item of expense as it occurs, debiting one class of expense to "Goods in Manufacture" account and the other to a general Profit and Loss account, or shall we give up the attempt on account of the difficulty it involves, and content ourselves with an imperfect statement in Goods account, knowing that the exaggerated gross profit there shown will be reduced to its due proportions in transit through P. and L.?

This is a more important question than it may seem to you at first sight. You may think that if a man's net profit is correctly given before being passed to his own Capital account that nothing more is needed. But remember that a manufacturer bases the selling price on the cost of production, and if the latter is not correctly given, might actually in some departments be busying himself in making articles to sell at a loss!

This difficulty is best met by charging a certain *percentage of Establishment charges* to each department, or to each job that the manufacturer may have on hand. This percentage should be a matter of careful consideration, the decision being based on the figures of past years as shown by the books.

For instance:—A manufacturer may have three special classes of work on hand and his direct expenses on account of each may be in the following proportion:—

A.		B.		C.	
Materials ...	£50	Materials ...	£100	Material ...	£500
Direct Labour...	50	Labour ...	200	Labour ...	100

Here it will be seen that the direct labour bears different proportions to the material used. In class A it is equal, in class B double, and in class C only $\frac{1}{5}$th. Let us suppose that Establishment charges amount to £210. How is this to be fairly divided?

	A.	B.	C.	
Ratio of Material	1	2	10	In which
.. ,, Direct Labour	1	4	2	of these
.. ,, Total Expense	1	3	6	ratios?

In all probability ratio No. 2 will afford the fairest basis for ascertaining the true cost of production, for it must be pretty clear that the costliness of the material on which the labour was employed would make little difference to the proper share of rent, rates, gas, wear and tear, &c., while on the other hand the amount of labour directly employed in the work would correspond roughly with the amount of gas and coal burnt and the proper proportion of rent, &c.

We shall therefore adjust the books by transferring £210 from the account of Establishment charges to the three accounts A, B, and C, as follows: £30 to A, £120 to B, and £60 to C.

The Journal Entry

"A" Department *Dr.*	£30		
"B" ,, *Dr.*	120		
"C" ,, *Dr.*	60		
To Establishment Charges *Cr.* ...		£210	
For share of monthly charges.			

will effect this transfer, and the Merchant will see the true cost of production and the true profit on each of these three branches of his business very much more clearly than by taking Establishment charges *en bloc* to P. and L.

Assuming the sales of these goods to have been A £170, B £300, C £500, and the stock at closing to be worth "A"

(all sold), B £130, and C £260, we can now close these accounts into Profit and Loss.

Dr. A		*Cr.*	*Dr.* B		*Cr.*	*Dr.* C		*Cr.*
	£	£		£	£		£	£
	50	170		100	300		500	500
	50			200	V.S. 130		100	V.S. 260
	30			120			60	
G.P.	40		G.P.	10		G.P.	100	
	170	170		430	430		760	760
				130			260	
Note: Cost of production £130.			Note: Cost of production £420.			Note: Cost of production £660.		

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Sundry other Losses and Expenses ...		£50	By "A"		£40
Net Profit		100	,, "B"		10
			,, "C"		100
		£150			£150

Compare the above with the result that would have appeared had the Establishment charges been thrown at once into P. and L. account

Dr. PROFIT AND LOSS. *Cr.*

To Establishment Charges		£210	By "A"		£70
,, Sundries		50	,, "B"		130
,, **Net Profit**		100	,, "C"		160
		£360			£360

where the Net Profit is the same as in Example 1, but the statement is less clear and more liable to mislead.

How so? In this way. Compare the percentage of profit on cost of production by the two methods (approximate):

	1st Method.	*2nd Method.*
A.	£40 on £130 = 31 %	£70 on £100 = 70 %
B.	10 ,, 420 = 2 %	130 ,, 300 = 43 %
C.	100 ,, 660 = 15 %	160 ,, 600 = 27 %

By the first and true method he sees that A pays better than C, and C better than B, *which scarcely pays at all.* But by the other method he is under the delusion that C is the least remunerative branch of the work, and that class B is really paying very well indeed.

(Here work out Exercise XXXIV., page 354.)

The account that is called "Goods" in a merchant's books is usually called "**Trading Account**" in a Manufacturer's. It will be seen however from what has been said above that "Trading Account" contains some items which would in a Merchant's books appear in P.&L. It is very important not to allow this intermingling of the two accounts to go too far. *Gains and Losses that have nothing to do with trading should never appear in Trading Account.* The appropriate place for these is of course Profit and Loss account.

FARM ACCOUNTS.

SIMPLEST FORM.

The difficulties that attend the accurate record of a manufacturer's concerns are small when compared with those that beset the effort to marshal the accounts of the business of a farmer. It is almost "past the wit of man" to devise a scheme of accounts for a farmer that shall be at the same time simple in its working and clear and explicit in its details.

First consider the question of Labour. If the manufacturer finds it hard to apportion his cost of Labour to special classes of work, how much more so the farmer! If the maker of bolts, nuts, and screws, finds at the end of a year a big item of unappropriated dead-weight expenses, how much greater is this item for the farmer! Or look again at the question of Stock Valuation. A man may approach somewhere near to the true value of a steam engine when he has made it, or even to the value of a steam engine in process of manufacture, but who shall say within 10 or 20 per cent. the value of the unexhausted improvements to the soil? Take them at cost, perhaps you say. But how do you know the soil was worth the cost bestowed on it, and will ever show an adequate return? If not, valuation at cost would be too high; and besides this, who is to undertake the work of valuation? The farmer himself has little time, and it is a long job, and professional valuation is expensive; so that I think we must admit there are difficulties in the way of accurate, concise, and simple Farm Bookkeeping.

It is good that you should try to realise these difficulties. There is a fortune waiting for you, depend upon it, if you can devise a scheme that will be simple enough for an ordinary farmer to understand and carry out, and full enough to give clear and accurate statements of his gains and losses every year.

Meanwhile, suppose an intelligent farmer with some preliminary knowledge of the principles of bookkeeping asks you for practical advice. What should you say? I imagine something of this kind:—

I. *As regards your general Statement at the end of the year.* (That is the thing to think of first, for if you do not have it *in your mind* to start with, you will probably never see it *on paper* to finish with.)

Aim at a Working Account (Lesson IX.), called "**General Farm account**," combining in one the Merchant's Goods

account and Profit and Loss account. Debit this account (1) with Stock Valuation at starting, (2) with all Expenses *whatsoever* (both Cash and Credit) during the year, except private and personal Expenses. Credit this account (1) with all sales of produce whether for Cash or Credit, (2) with Stock Valuation at end of year. *The balance shows the net gain or loss for the year.*

II. *As regards your books of original entry leading up to this statement.* (It is unlikely that a farmer will have anything to do with Bills, and I think we may safely take it that the majority of his transactions are Cash transactions. Therefore we advise as follows.)

Keep two books of original entry, called Cash Book and Credit Book, and deal with them thus :—

Cash Book.

(1) Enter in C.B. all receipts and payments of money with discounts allowed.

(2) If Bank transactions are few, pass them all through C.B. (Example page 172). If more numerous keep C.B. with special Bank column (Example page 176 or 178).

(3) Post from C.B. all receipts and payments *of accounts* to personal accounts in Ledger.

(4) Post all *miscellaneous* receipts and payments (including Wages) to **Farm Account.**

NOTE.—These can be posted in one amount monthly by the use of a Detail column (page 170).

(5) Keep Private (or Personal) Expenses in a separate book, drawing out a stated sum monthly, which charge to Capital account.

(6) Post totals of Discount columns to **Farm Account.**

Credit Book.

(1) Keep this in *Dr.* and *Cr.* form, like a Cash Book.

(2) Enter on *Dr.* side :—

(*a*) all Purchases on credit.

(*b*) all Liabilities incurred for work, &c., if not paid for at the time.

(3) Enter on *Cr.* side :—

(*c*) all Sales on credit.

(*d*) all Work done for other people not paid for at the same time.

(4) Post (*a*) and (*c*) and (*d*) to personal accounts in the Ledger. Post (*b*) to one general personal account, called "Sundry Persons," or to separate personal accounts, headed "Landlord," "Labourers," &c.

CAUTION.—When subsequent payment of these liabilities is made, enter in C.B. and post to the credit of *the same account you have now debited.*

(5) Post the **Total** of the *Dr.* side of this book to the debit of Farm account and the **Total** of the *Cr.* side to the credit of Farm account.

If your agricultural friend listens to this advice, and carefully follows out your instructions, there is no reason why he should not have the satisfaction of **Proving his books** just as well as if he were a city merchant. His Farm account, Capital account, and Balance Sheet would appear at the end of the year somewhat as follows :—

Dr. FARM ACCOUNT. *Cr.*

	£		£
Valuation (Oct. 1, 1894) ...	2,000	Cash Sales, &c.	1,500
Cash Outlay (from Cash Book)	2,100	Credit Sales, &c.	1,000
Credit Outlay (from Credit Book)	700	Stock Valuation, Sept. 30, 1895	2,550
Balance (Profit) ...	250		
	5,050		5,050
Valuation (Oct. 1, 1895) ...	£2,550		

Dr. CAPITAL ACCOUNT. *Cr.*

	£	1894.	£
Monthly Drawings for Personal Expenses ...	300	Oct. 1. Cash ... £1,000	
Balance (as per Balance Sheet below)	2,950	Farm ... 2,000	3,000
		Profit (as above) ...	250
	3,250		3,250
		1895.	
		Oct. 1. Balance	£2,950

BALANCE SHEET, SEPTEMBER 30, 1895.

	£		£
Debts Payable (see Ledger).	450	Farm Valuation	2,550
Balance (net Capital) ...	2,950	Cash £20	
		Bank 80	100
		Debts Receivable (see Ledger)	750
	3,400		3,400

(Here work out Exercise XXXV., page 356.)

Many farmers who have attempted Double Entry bookkeeping at the advice of friends have succeeded only in bringing their figures into a very complicated tangle, and have given it up in despair. Probably they have been misled by being told that the chief advantage of Double Entry was the specialisation of accounts, and that this was an essential feature of Double Entry. This is not so. The chief advantage of Double Entry is that it enables you to **Prove your Books.** Learn to do that (in the simplest possible manner) *first*, and then let us talk about specialising the accounts afterwards.

[CORY, in his *Practical Treatise on Accounts*, published by Pickering in 1839, speaking of Double Entry, says: "*To every separate article or person it is necessary to appropriate a distinct account.*" A more complete misapprehension of the *essence* of Double Entry Bookkeeping it would be difficult to conceive.]

It is however beyond question exceedingly useful for a farmer to be able to tell how much he has gained on this crop, and how much he has lost on that, whether he has done better this year than last over his lambs, and so on and so on. What are the difficulties of keeping separate accounts for each department of farming?

The difficulty lies mainly in the analysis of the Expenses. Must then every individual shilling of outlay (whether cash or credit) be analysed *before it is entered*, and then put down so much to one account and so much to another? If so, the task would often be impracticable. But this is not absolutely necessary. If the *main items* of Expense are divided and put to their proper accounts, the balance of miscellaneous charges can be appropriated at the end of the year in lump sums so as to give a fair and useful approximation to the truth.

Let us take a simple example, and we shall see how the very same principles that guide us in the case of the manufacturer help us in the case of the farmer.

E. F., an Enterprising Farmer, looking round for some more remunerative sphere of labour than cultivation of wheat to sell at 20/- a quarter, turns his special attention to the Dairy, the Poultry, and the Fruit Orchard, and at the end of the year submits to you his books for you to balance. He has kept them carefully and you are able with little trouble to reach these results :—

Orchard and Jam factory.	Direct Expenses	£400
Do.	do. Returns	350
Poultry farm.	Direct Expenses	500
Do.	Returns	400
Dairy.	Direct Expenses	600
Do.	Returns	800
Farm.	Expenses	1,000
Do.	Returns	900

Sundry Expenses of an indirect nature that could not be placed specially to any of the above. } £500

Valuation: Farm £1,900. Jam Factory £300. Poultry Farm £450. Dairy £100.

Before arriving at the profit of each of these separate departments, we must apportion the Sundry Expenses *pro ratâ*. Total direct charges £2,500. Total indirect Expenses £500. Add to each account one-fifth for indirect expenses, and the result will show as follows :—

Dr. JAM FACTORY. *Cr.*

Direct Expenses	£400	Returns—	
Indirect ,, ...	80	Cash £200	
Profit	170	Credit ... 150	£350
		Valuation (Stock, &c., &c.).	300
	£650		£650
Valuation	£300		

Dr. POULTRY FARM. *Cr.*

Direct Outlay	£500	Returns	£400
Indirect Expenses	100	Valuation	450
Profit	250		
	£850		£850
Valuation	£450		

Dr. DAIRY. *Cr.*

Direct Outlay	£600	Returns	£800
Indirect Expenses	120	Valuation	100
Profit	180		
	£900		£900
Valuation	£100		

Dr. GENERAL FARM ACCOUNT. *Cr.*

Valuation (Oct. 1) ...	£2,000	Returns	£900
Direct Outlay	1,000	Valuation	1,900
Indirect Expenses ...	200	**Loss** (!)	400
	£3,200		£3,200
Valuation	£1,900		

Dr. PROFIT AND LOSS. *Cr.*

Farm	£400	Jam	£170
Net Profit	200	Poultry	250
		Dairy	180
	£600		£600

[I have not thought it worth while to complicate the matter with any considerations of Bad Debts, &c. I merely wished to simplify the general principle of the specialisation of accounts, and to show how the practical difficulty of the analysis of expenses may sometimes be met.]

(Here work out Exercise XXXVI., p. 356.)

CONTRACTS.

Each contract represents a special branch of the business on the operations of which it is desired to find out the resulting gain or loss.

FIRST METHOD.

1. On the *contract being accepted* by the Contractor, debit a **General Contract account** of all his contracts, and credit the account of the Special Contract under consideration.

2. On *spending Cash* (*or incurring liabilities*), on behalf of a special contract, debit the contract concerned.

3. On *receiving Instalments*, credit the **person** from whom received.

4. On *completion of the contract*, (1) debit the **person** with whom the contract was made, and credit General Contract Account with the full amount of the contract. (2) Close the Special Contract account into P. and L.

5. *On balancing the books*, the (debit) balance of General Contract account will represent the sum of the gross amounts of uncompleted contracts; the difference between this amount, and the sum of the balances of the Special Contract accounts will represent the amount expended on the contracts, and the amount expended on the contracts, less the sum of the instalments received, will represent the net value of the asset "*Uncompleted Contracts.*"

SECOND METHOD.

1. *On the Contract being accepted*, make no Journal entry. (Enter in memorandum book or Register of Contracts.)

2. *On spending Cash* (*or incurring liabilities*), open an account Contract No. —, and debit this account.

3. *On receiving Instalments*, credit the above account.

4. *On completion of Contract*, (1) debit the **person** with the balance due, and credit the Contract account. (2) Close the Contract account into P. and L.

5. *On balancing the books*, the (debit) balances of the various Contract accounts should be brought down as follows: Debit balance, Cost of Work done; Credit balance, Instalments received. Thus each Contract account will have two balances, representing an Asset and a Liability respectively, or the balance may be brought down as below and entered in the Balance Sheet accordingly:—

To amount expended	£1,200	
Less Instalments received	1,000	£200

Of these two methods, the latter is simpler and is recommended for Examination purposes, but the former has the advantage of presenting in one view all the Contracts undertaken by a firm, and of showing at a glance which are completed, with the date of completion.

Interest on contracts not completed to time should be debited to Contract account before closing into P. and L.

Work not included in the contract must be debited to the **person** (not to the Contract account) as soon as it can be calculated and priced out.

(Here work out Exercise XXXVII., p. 356.)

The Hire Purchase System.

A.B. sells Office Furniture to C.D. value £200 on the Hire Purchase System, the terms being that an instalment of one-fifth is to be paid in cash and that there shall be a payment of £40 every quarter for the hire, C.D. becoming the owner on the completion of the fourth of these subsequent quarterly payments. (There is to be no additional charge for interest unless any of the quarterly payments are overdue, in which case 5 per cent. per annum will be charged until paid.)

First consider the matter from A.B.'s point of view. £200 worth of Goods have gone OUT of his warehouse, but not out of his ownership. The case is somewhat analogous to that of the merchant who consigns goods abroad (except that A.B.'s risk is very much less than the merchant's). A.B. therefore opens a "Goods on Hire" account, or more probably a special "Goods on Hire to C.D." account, and this he debits with the £200, crediting it with £40 at once to the debit of C.D. and with each successive £40 as it falls due.

Now look at the matter from C.D.'s standpoint. C.D. is in an unfortunate position. He parts with £40 Cash, and receives nothing but the *loan* of £200 worth of Furniture in exchange. He cannot even claim that £40 worth of this furniture is his property. None of it belongs to him until he has made the final payment. He should therefore in some way indicate this fact in his books. If any one is foolish enough to agree to a one-sided arrangement of this kind, let him at any rate take care not to deceive himself by making an erroneous or indefinite entry of the matter in his books. Is this £40 to be regarded as a Loss, then? C.D. receives no definite Asset in exchange at the time, though he will in course of time, if he keeps up his payments punctually. Now as long as the matter is in this state of suspense, the only proper course is to open a "Suspense Account" (Lesson IX.), and to enter the debit therein.

It does not matter in the least what title C.D. gives to this Suspense Account, provided that he clearly understands that it *is* a Suspense and not a Property account. I think "*Goods on hire from A.B.*" is a little misleading, and should prefer "Suspense Account, Office Furniture," with a memorandum of the conditions of hire under the heading. Then, when the final payment is made, the balance can be transferred to a definite "Office Furniture Account." C.D. is now the legal owner.

We will suppose C.D. to allow for depreciation at the rate of 10 per cent. per annum, and will show the books of the two parties side by side. (10 per cent. is not at all too much to allow—indeed, it is hardly enough, as Goods bought on the hire system are generally very poor value for the money.)

By the method shown on the next page, A.B.'s profit on this transaction is merged in the item **Gross Profit** in the general Goods account. If he wishes to know his profit on each separate hiring, he must debit Goods on hire and credit Goods with the *cost* price instead of the selling price at the commencement. Then the balance of Goods on Hire Account (or of each separate Goods on Hire Account) after the final payment will represent the net gain.

In some cases the hirer absconds and makes away with the goods hired; then A.B. must treat the balance of "**Goods on hire** account" as a loss.

In other cases A.B. claims and recovers the goods when C.D. has already paid *part* of the instalment money, through default of C.D. to continue these payments. The goods are probably somewhat damaged. Their net value must be placed to the debit of Goods account and the credit of "**Goods on hire**" account. The balance of the latter account will then probably show a respectable profit.

(Here work out Exercise XXXVIII., page 358.)

A.B.'s BOOKS.

Dr. **Goods on Hire to C.D.** *Cr.*

To Goods	£200	By Cash	... £40
		,, C.D.	... 40
		,, ,,	... 40
		,, ,,	... 40
		,, ,,	... 40
	£200		£200

Dr. C.D. *Cr.*

To Hire	... £40	By Cash	... £40
,,	... 40	,, ,,	... 40
,,	... 40	,, ,,	... 40
,,	... 40	,, ,,	... 40
	£160		£160

Dr. GOODS. *Cr.*

	By Hire C.D. £200

NOTE.—A.B. has passed each instalment through C.D.'s account, but this was not absolutely necessary, as C.D. kept up his payments punctually.

C.D.'s BOOKS.

Dr. **Suspense Account: Furniture from A.B.** *Cr.*

To Cash	... £40	By Deprc.	... £5
,,	... 40	,, ,,	... 5
,,	... 40	,, ,,	... 5
,,	... 40	,, ,,	... 5
,,	... 40	,, O.F.	... 180
	£200		£200

Dr. CASH. *Cr.*

		By A.B.	... £40
		,, ,,	... 40
Balanced day by day in due course.		,, ,,	... 40
		,, ,,	... 40

Dr. DEPRECIATION ACCOUNT. *Cr.*

Goods on Hire ... £20	

Dr. OFFICE FURNITURE. *Cr.*

Goods on hire redeemed by final payment	£180

We have now done with this branch of our subject (Capital in GOODS), but do not think that we have exhausted it. I

have not tried to do any such thing. I have only aimed to give you a clear idea of the main principle and to *set you thinking* as to how that principle might be applied in a few typical instances.

EXERCISES ON LESSON XIV

Exercise XXV.

(Adapted from London Chamber of Commerce B.K. paper, 1890.)

Make out the account sales of 36 hhds. Sugar received per the *Albion* from Frazer and Co., of Georgetown, Demerara, to be sold on their account, and sold by us as Commission Agents on Feb. 1, 1890, as follows :—

6 hhds., net $98\frac{3}{4}$ cwt., at 20/– per cwt., £98 15*s.*; 12 hhds., net 183 cwt., at 20/6, £187 11*s.* 6*d.* ; 10 hhds., net $147\frac{1}{2}$ cwt., at 21/–, £154 17*s.* 6*d.* ; 8 hhds., net $113\frac{1}{4}$ cwt., at 21/4, £120 16*s.*

Specify the principal charges, which amounted altogether to £57 10*s.* Our Commission on Sales $2\frac{1}{2}$ per cent. Show Net Proceeds.

Exercise XXVI.

(Adapted from College of Preceptors' B.K. paper, Midsummer, 1894.)

I received 20 pipes of Port from Tinto & Co., of Oporto, to sell on their account. I sold 5 pipes to A. Bell at £56 per pipe ; 8 to C. Dell at £57 ; 7 to E. Fell at £58. I paid for freight, &c., £150, and charge $2\frac{1}{2}$ per cent. on the sales for my commission. Make out the account, specifying charges and finding net proceeds due to Tinto & Co.

Exercise XXVII.

Journalise, Post, and Prove the following series :—

Jan. 1, Cash on hand £500. Jan. 2, Received a consignment of 100 bales of jute from King & Co., Calcutta, invoiced at £2,500, on account and risk of consignors. Jan. 3, Paid landing charges £42. Jan. 15, Sold 50 bales of jute for a cheque for £1,500. Jan. 16, Accepted King & Co.'s draft for £1,000. Jan. 20, Sold 50 bales of jute for a Bill for £1,400. Jan. 25, Discounted the above bill, receiving cash £1,380. Jan. 28, Charged a commission of £58 and accepted King & Co.'s bill for £1,500.

Exercise XXVIII.

Journalise, Post, and Prove the following series :—

1890. Feb. 1, Cotton on hand £10,000 : Cash on hand £500. Feb. 15, Bought cotton from Robert for £10,000. March 1, Consigned 100 bales of cotton per *Frederika* to Turner & Co., of London, for account and risk of the shippers £11,000, Shipping charges paid £30, Insured with Queen

Insurance Co. for premium of £550. April 1, Drew on Turner & Co. for £7,500 as advance against the shipment, and discounted bill, receiving £7,400. April 20, Sold cotton for cash £5,000. April 22, Received account sales from Turner & Co. showing that the consignment had realised £13,466, and received bill for £5,966. June 30, Cotton on hand £5,000.

Exercise XXIX.

Journalise, Post, and Prove the following series :—

April 1, Sheep on hand £300; cattle £700; and cash £100. April 2, Consigned sheep to Maddox for £300. Paid charges thereon £20. April 10, Maddox spends on them £15. April 20, Consigned cattle to Jones for £700. I spend on them £30. April 30, Jones spends on cattle £25. May 10, Maddox sells the sheep for £400, retains commission £30, and remits bill for balance. May 20, Jones sells the cattle for £900, retains commission £50, and remits cheque for £200 and Smith's P/N for the balance. May 31, Smith's P/N dishonoured.

Exercise XXX.

Journalise *only*, the following transactions :—

April 1, Cash at bank £5,000 ; Offices £3,000 ; Tobacco on hand £2,000 ; Green's acceptance £900 ; Our acceptance to Jones £800 ; We owe Alfred £600. April 3, Consigned tobacco to Mr. Walter, of York, for £1,000. On our account and risk paid charges £50. April 4, Insured the tobacco with London Assurance Company for £1,200 at a premium of £30. April 8, Bought cotton from Mr. Samuel for £4,000, and accepted his draft for the amount. April 9, Consigned on our account and risk to White and Co., of Liverpool, cotton for £4,000. Paid shipping charges £100. April 10, Drew on Mr. Walter, of York, for £750, as an advance against the consignment of tobacco, and discounted bill at our bank ; discount charged £25. April 11, Insured the consignment of cotton with the London Assurance Company for £4,500 at a premium of £125. April 14, Drew on White and Co. against the consignment of cotton for £2,250 and discounted it, receiving £2,150. April 15, Consignment of tobacco to Walter lost by wreck, the underwriters being liable for £1,200. April 16, Sold tobacco to Alfred £600. April 17, Bought tobacco from John Brown £200. April 18, Received from the underwriters a cheque for the balance of their account. April 20, Paid life insurance premium due by John Brown £50. April 30, Paid salaries £100. May 28, Sold tobacco for cash £300. June 15, Received account sales of cotton from White and Co., of Liverpool, the gross sale proceeds being £5,025, the charges paid at Liverpool being £225, the commission charged being £150, and the net sale proceeds

£4,650. June 20, Received a sight bill from White and Co. in settlement of account £2,400. June 30, Rent and salaries due £150. Depreciation of offices £150. Tobacco on hand £700.

(Treat all Cash as passing through the Bank.)

Exercise XXXI.

Prepare a closed Ledger for the following transactions. Also draw up a Balance Sheet for January 1.

Oct. 1, Due by James Price £320. Due by Arthur £250. Due to Alfred £293. Our acceptance to James Price due Oct. 13 £320. Cash on hand £2,125. Oct. 5, Bought of Carter and Co. for shipment per *Hercules* on account of Temple and Co. goods £600, and charged Temple and Co. commission £30. Oct. 10, Sold to Antony the consignment of cotton received from James Price last month on account of consignor for £700. Oct. 13, Paid our acceptance of Price's draft this day. Oct. 20, Rendered account sales to James Price, deducting a commission of £35, and for sale expenses paid £25. Nov. 6, Bought of Stevenson, on account James Price, goods to be shipped per *Juno* to Australia as per invoice £2,500. Nov. 7, Paid Stevenson cash £500, and our acceptance £2,000. Nov. 20, Sent to James Price, invoice of goods shipped per the *Juno* as under: Stevenson's invoice £2,500, dock charges paid from cash £13, freight paid £125, petty cash charges £12, commission on £2,650 at 2 per cent. Dec. 7, Received from Antony £700. Dec. 12, Sold to Hankins and Co. the consignment of iron received last month from Arthur for £500. Dec. 19, Paid Carter and Co. £600. Dec. 29, Received from James Price a bill for £1,500. Dec. 30, Rendered account sales of iron to Arthur, charging commission £25. Drew on J. Price in favour of Arthur for £225. Dec. 31, Trade expenses paid £200.

(Treat Cash and Bank as one.)

Exercise XXXII.

Journalise the following series. Also make out the *account sales* of both consignments given, filling in probable items for "expenses."

We, James Cadmon and Sons, of London, have—

Jan. 1, Stock on hand £5,600. Horses on hand £380. Due by Thomson £300, and by Semple £145. Due to bank £150. Due to Robson £425. Jan. 3, Sold stock for £2,700. Jan. 5, Bought stock and gave P/N in payment £700. Jan. 6, Drew out for private expenses £25. Jan. 10, Received from Thomson his acceptance for £300. Jan. 12, Paid Robson £400 and were allowed remainder of debt as discount. Jan. 13, Consigned stock to William valued at £1,000. Paid for shipping charges £100. Jan. 20, Received a consignment from Maxwell to be sold on consignor's risk,

stock valued at £1,200. Jan. 31, Sold Maxwell's consignment for £1,350, and rendered A/S after deducting for commission £65, and for expenses paid £15. Feb. 10, Remitted a bill to Maxwell for £1,000. Feb. 15, Received from William consignment note stating that the stock had realised gross £1,200, that his expenses amounted to £25, and his commission to £50. Feb. 20, Paid B.P. for £700. Feb. 25, William failed and paid us 12*s.* in the £. Feb. 28, Paid rent and wages £800. Depreciation on horses £40. Value of stock £5,000. Charge interest on capital at 6 per cent. (to nearest pound).

Exercise XXXIII.

Journalise, Post, and Prove the following series :—

Jan. 1, Thomas and Co. owed to George £280, and were under acceptance to George for £750. Their assets were : adventure to Brooks and Co., of Ceylon, valued at £3,000. Goods on hand £5,000. Cash on hand £7,980. B.R. : Wright's acceptance of Wiggins' draft £500. Due by Wiggins £290. Due by Wright £3,210. Jan. 3, Advanced to petty cash £20. Jan 4, B.R. dishonoured. Noting and other charges paid out of petty cash £1. Jan. 7, Sold goods to Mr. Wright £990, and received his acceptance for £4,200. Jan. 12, Received account sales from Brooks and Co., Ceylon, showing that the adventure had realised net £4,000, and a sight draft for the amount to be honoured by Baring Brothers. Jan. 15, Took up our acceptance to George, due this day. Received cash from Baring Brothers £4,000. Jan. 17, Bought goods of Morley and Co. on account of Brooks and Co., of Ceylon, £2,000. Bought goods of Morley and Co. for consignment to Brooks and Co., of Ceylon, to be sold on account of the consignors, £2,000. Shipped all the above by s.s. *Dunottar Castle* and paid charges £200. Jan. 18, Insured with Royal Exchange Co. the goods per *Dunottar Castle* for £5,000, premium £100. Jan. 19, Received from Rogers and Co. to be sold on their account 40 pipes of Port invoiced at £4,000. Paid landing charges on above £200. Jan. 24, Sold 10 pipes of Port to A. Wilson for £1,500. Jan. 25, Received from Wilson his acceptance at 2 months for £1,500. Jan. 26, Paid Morley and Co. cash £2,500, and Wilson's acceptance £1,500, and credited Morley with 2 months' interest on Wilson's acceptance, £15. Jan. 29, Sold our goods by auction and realised gross £4,500, less catalogue expenses £50, and auctioneers' commission at 5 per cent., £225. Jan. 31, Received a cheque from the auctioneers for the net amount due.

Exercise XXXIV. (a)

After reading over the following particulars, make out accounts for Article No. 1, Article No. 2, Article No. 3, and Profit and Loss, in TWO ways :

(1) Charging sundry expenses to P. and L. direct.

(2) Charging 50 per cent. of establishment charges proportionately to the productive labour expended on each article, and the balance to P. and L.

Then compare the percentage of profit on cost of production by the two methods. (See page 339.)

Article No. 1.—£58 paid for materials, £28 for wages, £150 received for sales, value of stock £35.

Article No. 2.—£100 paid for materials, £16 for wages, £110 received for sales, value of stock £26.

Article No. 3.—£20 paid for materials, £110 for wages, £200 received for sales, value of stock £95.

Establishment, trade, and other charges of the concern amount to £143.

Exercise XXXIV. (b).

(Chartered Accountants' Intermediate Examination, December 1891. Paper B, Question 6.)

Messrs. Simpson and Ashton commenced with £1,300 each a retail ready-money business, and on January 1, 1890, they had a stock of Goods which had cost £2,220, and Trade Fixtures and Fittings £260, and Cash £120. The Stocks were divided as follows: Dept. A £400; B £500; C £400; D £320; E £600 = £2,220. On June 30 the summary of the Cash Book for the six months was as follows:—

	£	s.	d.		£	s.	d.
To Cash in hand Jan. 1	120	0	0	By Purchases—Dept. A	699	8	0
,, Sales—Dept. A ...	1,225	16	0	,, ,, ,, B	874	18	0
,, ,, ,, B ...	1,462	12	6	,, ,, ,, C	737	6	0
,, ,, C ...	1,141	3	0	,, ,, ,, D	532	14	0
,, ,, ,, D ...	1,148	7	6	,, ,, ,, E	1,677	0	0
,, ,, ,, E ...	2,088	6	0	,, General Expenses .	610	0	0
				,, Drawings: Simpson	220	0	0
				,, ,, Ashton.	230	0	0
				,, Balance of Cash June 30th ...	1,604	19	0
	7,186	5	0		7,186	5	0

There were also purchases owing for: Dept. A £357 10*s.*; B £426 4*s.*; C £199 10*s.*; D £211 16*s.*; E £212 10*s.*; and Rent £132.

The stocks were on June 30th as follows: A £433; B £560; C £398 12*s.*; D £188 15*s.*; E £830 15*s.*

Prepare a Trading Account of each Department, adding to the Expenses Account 20 per cent. per annum for depreciation on Fixtures, and dividing the expenses A $\frac{12}{64}$, B $\frac{14}{64}$, C $\frac{11}{64}$, D $\frac{9}{64}$, E $\frac{18}{64}$. Also prepare a Profit and Loss

Account, Capital Account, and Balance Sheet at June 30th, 1890, crediting each partner with 5 per cent. interest on Capital, charging no interest on drawings, and dividing the profits equally.

Exercise XXXV.

Journalise, Post, and Prove the following series :—

The affairs of V. Gibberd, Farmer, on July 1, 1895, were as follows :—

Cash in hand £80 ; at bank £350. Farm valued at £2,700. He was owed by R. Banyard £300, K. Murray £150, and G. S. Oldfield £95. He also owed D. M. Birkett £470, and P. Hemmant £205. Reserve for rent due £200.

July 2, Bought stock and gave cheque £80. July 3, Sold horse to Oldfield £40. July 5, Banyard sends cheque £200. July 6, Sold stock to Murray £125. July 7, K. Murray becomes bankrupt and pays 16*s.* in the £. July 8, Paid Hemmant by cheque £200, and was allowed discount £5. July 10, Drew cash for private use £10. July 11, Paid taxes by cheque £15. July 12, Bought two horses from L. Gamble £120. July 13, Paid wages by cash £14. July 15, Sold stock for cash £300. July 16, Sold wool for cash £73. July 16, Paid into bank £350. July 17, Paid half year's rent to June 31 by cheque £240. July 19, Bought pigs from Birkett £35. July 26, Paid Birkett £495 in settlement. July 29, Paid wages cash £6. July 30, Sundry cash expenses £28. July 31, Proportion of rent due for month £40. Value of stock £2,650.

Exercise XXXVI.

Oct. 1, 1895, John Legerton starts in business with cash £500. Oct. 2, He buys implements of J. Thurgood £100. Oct. 5, Buys 3 horses at £30 each £90. Buys 12 bullocks at £18 each £216. Buys feeding stuff for bullocks £45. Sept. 1, 1896, Sold part of crops £200. Sept. 30, Paid in wages during year £70. Wages still due £10. Rent due to landlord £180. Cash drawn for private expenses £25. Valuation of bullocks £300. Valuation of Wheat, &c., in hand £90. Valuation of Horses and implements £175.

Journalise, Post, and Prove the above series.

Keep separate accounts for bullocks, crops, and horses, &c. Charge three-fourths of trade expenses to Crops account, and one-fourth to Bullocks. Credit P. and L. and debit Capital £100 for family living expenses.

Exercise XXXVII.

(Society of Arts, 1894.)

The following shows the state of affairs of Messrs. John and Joseph Tough, ironwork contractors, at January 1, 1894, followed by a record of their transactions during that month.

You are required to arrange and post these transactions to proper accounts opened in the Ledger, and, having balanced them, to draw out a profit and loss account, trial balance, and balance-sheet, to credit each partner with 5 per cent. interest on his capital, and carry the amount of the profit or loss in equal shares to their respective capital accounts.

All payments over £5 by cheque, unless otherwise stated; all under that amount in coin; all receipts paid into bank same day.

Liabilities.

Capital: John Tough £13,057 14*s.* 1*d.*, Joseph Tough 15,960 1*s.* 6*d.* Sundry creditors: Peter Jones £923, John Smith £1,027 16*s.*, Henry Brown £450. Bills payable: No. 391, £1,000; No. 392, £850 10*s.* Instalments received on current contracts: No. 124, Wessex bridge £960; No. 125, Mercia tanks £1,845; No. 126, Cantia derricks £2,460. Mortgage on Premises £15,000.

Assets.

Freehold works valued at £26,000. Plant, machinery, and rolling stock £5,280. Cash at banker's £2,456 1*s.* 9*d.* Cash in office £84 7*s.* 4*d.* Bill receivable No. 248 £365. Sundry debtors: Thomas Tiger £1,254 9*s.* 3*d.*; Edward Eagle £1,215 10*s.* Current Contracts (value of work done): No. 124, Wessex bridge £1,530 2*s.* 9*d.*; No. 125, Mercia tanks £3,160 10*s.* 4*d.*; No. 126, Cantia derricks £5,130 12*s.* 8*d.*; No. 127, Devonia viaduct £815 10*s.* Stocks of materials on hand £6,241 17*s.* 6*d.*

Jan. 1, Bought of John Smith 100 tons plates at £7, £700. Jan. 2, Paid him cheque £1,200. Paid him bill at two months £500. Jan. 3, Paid rates and taxes £31 7*s.* 6*d.* Jan. 4, Received payment bill No. 248 £365. Jan. 6, Received instalment contract No. 125 £1,000. Paid sundry petty expenses £4 16*s.* Paid fire insurance £32 1*s.* 6*d.* Jan. 8, Took contract for Anglia girders, No. 128 £1,250. Jan. 9, Paid bill No. 392 £850 10*s.* Bought of Peter Jones for cash 45 cwt. rivets at 32*s.* £72. Material supplied to date: Contract No. 124 £248 15*s.*; Contract No. 125 £132 7*s.* 6*d.*; Contract No. 127 £315 9*s.* 8*d.*; Contract No. 128 £264 7*s.* 6*d.* Jan. 11, Received of Thomas Tiger cheque £400. Jan. 12, Contract No. 126 completed and passed, and balance of contract received £3,500. Partners' drawings: John Tough £500, Joseph Tough £500. Jan. 13. Bought of Henry Brown for two months' bill, 50 tons angles at £7 10*s.* £375. Drew cheque for wages paid this day: Contract No. 124 £222 6*s.*; Contract No. 125 £107 5*s.*; Contract No. 126 £5 15*s.* 6*d.*; Contract No. 127 £128 18*s.* 6*d.*; Contract No. 128 £52 3*s.* 4*d.* Jan. 16, Paid Henry Brown £430. Discount allowed £20. Jan. 17, Received of Edward Eagle £1,200. Allowance on settlement £15 10*s.* Jan. 18, Received instalment on Contract No. 124 £500. Jan. 21, Bought of Stephen Spicer

Timber as per invoice £142 3*s.* 6*d.* Jan. 22, Received instalment Contract No. 128 £350. Jan. 23, Received cash sundry sales £18 1*s.* 6*d.* Jan. 24, Partners' drawings, John Tough £150. Paid Peter Jones £500. Jan. 25, Paid bill No. 391 due this day £1,000. Received of Thos. Tiger bill at three months £841 3*s.* 6*d.* Jan. 26, Paid Stephen Spicer £140. Discount allowed £2 3*s.* 6*d.* Jan. 27, Drew cheque for wages paid this day: Contract No. 124 £125 19*s.* 4*d.*; Contract No. 125 £22 11*s.*; Contract No. 127 £173 7*s.* 11*d.*; Contract No. 128 £230 4*s.* 4*d.* Received net proceeds sale by auction of loose plant, Contract No. 126 (value in books £350) £186 15*s.* Paid office salaries for month £27 10*s.* Received instalment Contract No. 127 £1,000. Jan. 28, Contract No. 125 completed and passed. Final balance due £2,100. Instalment received £1,650. Jan. 29, Paid half-year's interest on mortgage £300. Jan. 31, Materials supplied to date: Contract No. 124 £831 15*s.*; Contract No. 127 £463 10*s.*; Contract No. 128 £159 17*s.* 6*d.* Paid water rate £10 4*s.* 6*d.* Paid inspector's fees Contract No. 125 £31 10*s.* Paid off mortgage £2,000. Depreciation of buildings £54 10*s.* Depreciation of plant and machinery £24 6*s.* Credit John Tough interest on capital £54 4*s.* Credit Joseph Tough interest on capital £65 15*s.* 3*d.* Stocks of materials on hand £4,822 16*s.* 8*d.*

Exercise XXXVIII.

On Jan. 1, 1890, D. Hampson hired of K. Samuel Office Furniture valued at £300. D.H. agreed to pay £100 cash and the remainder in five half-yearly instalments, interest being charged from time to time on the outstanding balance at the rate of 5 per cent. per annum. Assuming that the value of this Furniture at the end of the period would be only £150, make out the accounts as they would stand in D. Hampson's books, writing off the necessary amount for Depreciation each half year.

LESSON XV

FIXED CAPITAL

The term Fixed Capital has the same meaning in Book-keeping and Economics.

Property that remains in the possession of the Capitalist, and is used in business to help to make a profit, but is not bought and sold as Merchandise, is called **Fixed Capital.**

Property that the Capitalist parts with in order to make a profit by exchanging it for some other property is called **Floating Capital.**

The same things may be either Fixed or Floating Capital according to the way in which they are used. Thus, Furniture is part of the fixed capital of a Hotel proprietor, but part of the floating capital of the furniture dealer.

The following are very frequently used as Fixed Capital: Machinery, Office Furniture, Business Premises, Land, Fixtures and Fittings, Ships, Plant, Works, &c., &c.

Accounts of these branches of Capital are sometimes specifically called Property Accounts, but we have already shown that accounts of Cash, Goods, and Debts are property accounts as well as accounts of Houses, Land, &c.

Accounts of fixed Capital are those that are referred to in the oft-repeated caution to accountants to **distinguish between Capital and Revenue.** This warning put into plain words means: Do not debit any account of fixed Capital (*e.g.* Machinery) with any Expense that properly belongs to Profit and Loss (or Revenue). The warning has nothing to

do with "Capital Account," except in certain special kinds of Company Bookkeeping, which we shall consider in Lesson XVIII.

It may be said, If Cash, Goods, and Debts are parts of Capital, why does not the above warning refer to these accounts as well?

To understand this, you must consider why such a warning is necessary, and wherein lies the temptation to neglect it. The danger is precisely here. A man may easily make the profits of his business appear to be more than they are in reality, by regarding some of the Expenses incurred as having increased the value of some portions of his property, instead of regarding them as Losses, or deductions from his Gains. If such expenses do really and truly represent Value IN, then he is right to debit the particular property account into which Value has come, but, if not, then P.and L. (or Revenue) ought to have been debited.

Now you will see that this danger only exists with respect to certain kinds of Capital.

(i.) *Capital in Cash, Bills, &c.* Any over-debiting of these accounts would be immediately checked by *independent Valuation*—that is, by counting the Cash, &c.

(ii.) *Capital in Debts.* Any over-debiting of personal accounts would be checked by the repudiation of the debt on the part of the alleged debtor, as soon as application for payment was made to him.

NOTE.—It must be remembered that Bookkeeping does not create facts. It only records facts. When I debit A.B. I do not thereby make him my debtor (as some books on Bookkeeping have erroneously stated). I simply record the fact that he *is* my debtor. Were it otherwise, how easy it would be for any one to buy a big Ledger, and debit all his acquaintances with substantial sums of money, to his own rapid aggrandisement!

(iii) *Capital in Goods.* There is very slight danger of accounts of Merchandise becoming over-debited. The Goods themselves are subject to independent valuation at stocktaking,

and if this is carefully done, as indicated in the last lesson, all over-debiting will be adjusted by a diminished *Gross* Profit, the *Net* Profit thus being unaltered

(iv.) *Fixed Capital.* Here, on the other hand, there is very great danger of over-debiting. Many accounts of this class are of such a nature that the value of the property represented cannot be assessed even approximately without great labour and inconvenience. We must now therefore carefully consider *how to avoid the danger* we have been speaking of.

(*a*) It is manifest, from what has already been said, that the most obvious and most effectual check is **re-valuation.** This should be done as often as practicable, when the account can be put straight by Rule A, and the balance carried to the debit, or (in rare cases) to the credit of P. and L.

(*b*) If the value of the property in question absolutely lapses in a definite period of time (as in the case of a lease for which valuable consideration has been given), an amount should be deducted *every year* just sufficient to reduce the book value to zero, by the time the actual value has vanished.

Thus, if I have Leasehold property valued at £160,000 which will run out in four years, I can set aside £40,000 at the end of every year as a reserve fund, or I can "write off" £40,000 every year from Leasehold property account.

(But see Appendix to this Lesson, page 369.)

(*c*) If the property in question gradually deteriorates in value without absolutely lapsing at any definite date, then a certain **percentage** of the book value should be deducted every year for depreciation.

Journal Entry.

Dec. 31 Profit and Loss *Dr.*

To Property in question *Cr.*

(Being 5 per cent. on value of above property on January 1 last.)

But how shall we decide the amount of the percentage?

Here indeed is a thorny question. It depends of course on the nature of the property, and on all the surrounding circumstances. Will it need replacing in five years, in ten, in twenty? Or will it last a man's lifetime and beyond? The following table may prove useful, if taken as an approximate guide, to be checked by practical advice, and by a very careful consideration of all the circumstances, remembering that no hard-and-fast rule can possibly be laid down.

	On Diminishing Value.
Freehold Buildings, if kept in good repair ...	2 %
Ditto under unfavourable circumstances	5 to 7 %
Machinery	5 %
Boilers...	10 %
Horses (under ordinary circumstances)	10 to 15 %
Furniture, Fixtures, &c.	7½ %
Ships	5 %
Railway Wagons	7½ %

If these percentages are *written off* the property accounts, then the Journal Entry will be :—

Profit and Loss *Dr.* To Property Account.

Being — per cent. written off for depreciation.

If the percentages are placed to the credit of a Depreciation *Fund*, then the Journal entry will be :—

Profit and Loss *Dr.* To Depreciation Fund *Cr.*

Being 10 per cent. depreciation on value of——

and the Balance Sheet must be made out as follows :—

BALANCE SHEET.

Liabilities.	January 1, 1896.		Assets.
Sundries	£2,500	Property, book value	£7,000
Capital	5,000	Depreciation Fund .	1,500
		Net Value	£5,500
		Sundries	2,000
	£7,500		£7,500

The Balance Sheet must not be drawn up as below, or it would give an idea that the Depreciation Fund was really a sort of Reserve of Capital (see Lesson X.)

BALANCE SHEET.

(INCORRECT METHOD.)

LIABILITIES.	January 1, 1896.		ASSETS.
Sundry Liabilities ...	£2,500	Property	£7,000
Depreciation Fund ...	1,500	Sundry Assets ...	2,000
Capital	5,000		
	£9,000		£9,000

Bear in mind that the object of the three methods we have been considering is the same—viz., to assimilate the book value and the actual value of the property in question.

(Here work out Exercise XL.)

There is one simple rule for keeping accounts of Fixed Capital.

Debit Value IN. *Credit* Value OUT.

It is astonishing how beautifully this simple rule will guide us, if we only have the courage to adhere to it. Let us test it in several cases.

EXAMPLE I. BUSINESS PREMISES.

1. *Purchased Business Premises for £1,000.* Is this Value IN? Most certainly it is. Therefore debit Business Premises Account and credit Cash.

2. *Repairs to Business Premises executed by R. W. £50.* Does this increase the value of the premises—that is, does it make them distinctly above the value as it now stands in my books? Probably not. Repairs are usually undertaken to

keep up the value of the premises. The debit should therefore be made to Trade Expenses, and unless paid for at the time R.W. should be credited.

3. *Extensions and improvements to premises carried out by R. W.* £200. Here is a manifest increase of value, and the entries will clearly be, Business Premises *Dr.* and R. W. *Cr.*

4. *Old Materials sold to R. W.* £10. These old materials formed a portion of the Value of the premises as they originally stood. Value has therefore gone OUT, and I must debit R.W. and credit Business Premises.

5. *Wear and Tear* $2\frac{1}{2}$ *per cent.* This depreciation is calculated on the value as it stood on Jan. 1. Does it represent Value IN or Value out? It represents daily imperceptible Value OUT, and Business Premises must be credited. The debit can be placed either in P.and L. direct or in a Subsidiary account, called **Depreciation Account**, created for the purpose of showing the sum total of the losses arising from depreciation of various kinds of property connected with the business.

NOTE.—The above account must not be confused with **Depreciation Fund Account.** The latter is a property account, the former a proprietary account.

Dr. BUSINESS PREMISES. *Cr.*

To Cash	£1,000	Sale of Materials	£10
,, Extensions	200	Wear and Tear	25
		Balance	1,165
	£1,200		£1,200
Balance	£1,165		

(Here work out Exercise XLI.)

II. Houses.

1. *Bought House Property for Cash* £2,200. This is plainly Value IN as regards the House Property. I must therefore open an account to House Property, and make the Journal entry, House Property *Dr.* To Cash.

2. *Erected brick wall in place of old wooden fence at a cost of* £95. Here is £95 worth of Value IN. My House Property is worth more than it was before, and I am right in debiting House Property account with the amount.

3. *Quarter's Rent due by sundry tenants* £40. (£15 paid.) The first thing that is quite plain is that £15 Cash has come IN. We notice next that Sundry Tenants have become my debtors to the extent of £25. Here is Value IN to my D. R., so that Cash must be debited £15, and Sundry Tenants £25. But what shall we credit? House Property account? Test it by the simple rule given, and you will see in a moment that these rents neither increase nor decrease the value of the property, and there can therefore be no entry made in this account. The credit must be made either to P.and L. or to a branch account headed Sundry Rents or Rent account.

Caution.—Distinguish carefully between Rent account and Sundry Tenants account. The former is a proprietary account, the latter a property account.

4. *Received of Sundry Tenants, rents due* £25. This amount having already been entered in P.and L. account, we must take care neither to credit that account nor any branch of it. Nor must we enter either to the debit or credit of House Property account, for Value has neither come IN nor gone OUT from that account. Cash *Dr.* To Sundry Tenants will be the correct Journal Entry.

5. *Cost of Sundry Repairs* £9. Neither Value IN nor Value OUT, simply Value kept up. Therefore P.and L. is *Dr.* To Cash.

6. *Sold a portion of House Property for £450 to A.B.* Here the Value goes OUT from House Property, and comes IN to Debts Receivable (A.B.) We therefore enter A.B. *Dr.* To House Property.

7. *Allow for Depreciation £40.* This represents Value OUT, and we enter P.and L. *Dr.* To House Property *Cr.*

8. *Valuation of Property at end of year £1,830.* On adjusting this account by Rule A we find a difference of £25 between book value and actual value. This we take to P.and L. by Journal Entry.

NOTE.—It may be said: Does not this Valuation prove that it was wrong to write off £40 for Depreciation? Not at all. The profit arose from the sale of one of my houses. Depreciation goes on steadily whether I gain or lose on sales or not. Had I not allowed a fair percentage for depreciation, I might have imagined I had sold this house at an actual loss.

Dr. HOUSE PROPERTY. *Cr.*

1. To No. 1 ...	£400		No. 1 Sold		£450
,, 2 ...	1,000		Depreciation		40
,, 3 ...	800		Valuation		1,830
		£2,200			
2. Brick Wall		95			
Profit and Loss... ...		25			
		£2,320			£2,320

(Here work out Exercises XLII. and XLIII.)

III. STOCKS AND SHARES.

When these are bought and sold as Merchandise, they do not come under the head of Fixed Capital. When they are bought for the purpose of realising a profit by the dividends, or for the purpose of employing for a time some of the surplus capital of the firm, or for the purpose of strengthening the financial position of the business by creating a kind of reserve fund, then they are Fixed Capital.

(1) *Purchases.*

An account should be opened for each kind of stock that is purchased, and this account debited with the cost.

(2) *Receipt of Dividend.*

No entry should be made in the account of the Stock, the value of which remains unaltered.

(3) *Sale of Stocks or Shares.*

Credit the account of the Stock in question with the net proceeds of the Sale.

(4) *Closing the account.* Value *each stock* at cost price, unless market price is lower, in which case take the latter as the valuation. Never be tempted to balance the market depreciation of one kind of security by the rise in the market value of another kind. *Deal with each separately.*

Question.—Why take notice of market price when it sinks below cost, but not when it rises above? If it is fair and right in the one case to carry the deficiency of value thus caused to P. and L. as a Loss, why is it not equally fair and right to carry the overplus created by the rise in market value to P. and L. as a Gain? **Answer.**—If you are the sole proprietor of the business, you may please yourself in the matter, and provided your securities are all of the best class you will perhaps not go far wrong whichever you do; but if you have partners, or if the concern is a company, distributing its half-yearly dividends on the (supposed) basis of profits actually realised, then it would be manifestly risky to reckon a rise in market value as a profit actually earned, and to proceed to distribute that profit among the shareholders. Twenty things may happen to prevent the anticipated profit being translated into available assets. It is only the part of common prudence to wait and see. On the other hand, it would be equally imprudent in most cases to *neglect* to notice a *fall* in market values. Should the fall continue, it is much better that part of the loss should have already been debited to P. and L. Should the price rise again, perhaps P. and L. may cautiously be credited, but stocks that are subject to much of this fluctuation are usually avoided by those who are on the look out for securities for investment purposes.

(Here work out Exercise XLIV., page 376.)

IV.—To find the Revenue arising from the employment of Fixed Capital or any portion thereof.

Fixed Capital may be used in two ways: (i) it may be let out on hire to persons outside the business, and may thus yield a profit to the Capitalist, or (ii) it may be used in the business itself. In either case it may be desired to have on record the amount of profit gained by its use, either in order to find out whether it is worth while to continue to employ it, or to find by comparison whether it is yielding as good a return as in past years. To obtain this record it is necessary to open two accounts—(*a*) an account of the Property itself, (*b*) an account of the Revenue derived therefrom.

Let us suppose that we are dealing with the case of **Machinery**, and that we have three machines of varying productive power, which we may call A, B, and C. Take as an illustration the case of machine A.

(i.) Open a property account "**Machine A.**"

Debit this account with Value IN.

E.g.—(i.) Purchase of Machine.
(ii.) Additions and Improvements.

Credit this account with Value OUT.

E.g.—Depreciation by Wear and Tear.

[The percentage for Depreciation of Machinery varies not only according to the nature of the Machine, but also according to the nature and amount of work given it to do, the number of working hours per day, the speed at which driven, &c.]

Close the account according to the principles already explained.

(ii.) Open a proprietary account "**Machine A. Revenue Account.**"

(*a*) Debit Losses.

E.g.—(i.) Expenses to *keep up* the value.
(ii.) Depreciation (that is to say, the amount credited to *Machine Account* as value OUT) must be debited to Machine *Revenue* Account as a Loss = Services IN: see Lesson IV.

(*b*) Credit Gains.

When employed outside on hire, debit the hirer and credit M.R. account.
When employed inside :—

(i.) On Manufacture of Goods for Stock—
Goods (General or Special) *Dr.* To M.R. Account *Cr.*

(ii.) On work being done to order of A.B.—
A.B. *Dr.* To Machine Revenue Account *Cr.*

(iii.) On work for general good of business—
Trade Charges *Dr.* To M.R. Account *Cr.*

Balance the account at the end of the year, and close into P. and L.

(Here work out Exercise XLV.)

APPENDIX.—LEASEHOLD PROPERTY ACCOUNTS

The very simple method of "writing off" Leasehold property accounts suggested on page 361 is not the one usually adopted, which we now proceed to consider.

It is usual to debit accounts of this class with **Interest** on the balance, and to credit "*Interest on Capital*" Account. This introduces an element of considerable complexity into the calculation.

Suppose that we allow the amount of Leasehold Property taken as an example on page 361 to remain in our books for the four years, debiting interest year by year at the rate of 5 per cent. Then in four years the book value of this property would be £194,481, but the actual value would be, as we have assumed, nothing at all.

Suppose, however, that at the beginning of this four years we had determined to put aside a certain sum yearly for the purpose of buying an equal value of other property at the expiration of the four years. It is plain that we have to put aside every year a sum such that the amount at the end of the four years will be £194,481.

The problem, therefore, is to find an amount the annual investment of which at compound interest will produce an amount equal to the Future Value of the property in question for the given time and rate, at compound interest.

The problem is not a very difficult one to solve *arithmetically*. Deal with £1 in the way suggested—that is, invest £1 at the end of *each* year, and at the end of four years you will have £4·310125 in hand. Divide £194,481 by 4·310125, and you find £45,121 17*s.* 10*d.* (very nearly) is the amount required.

Practically, however, the answer is found in a much simpler way. No business man would waste his valuable time in working out such a problem, when he can find the means of solution by consulting any book of annuity tables.

Having found the amount required for annual investment, the bookkeeper has two methods open to him in dealing with such a case as the above.

(i.) He may place the amount determined on as above to the credit of Leasehold Property account, which will thus be debited with diminishing interest year by year. (See Example, page 371.)

Journal Entries.

Leasehold Property *Dr.* To P. and L.
For Interest on balance 1 year.
P. and L. *Dr.* To Leasehold Property.
For Annual redemption.

or (ii.) he may open a new account, Depreciation Fund, crediting this fund with a yearly increasing amount of interest. (See Example, pages 372, 373.)

Journal Entries.

Leasehold Property *Dr.* To P. and L.
For Interest on balance.
P. and L. *Dr.* To Leasehold Depreciation Fund.
For 1 year's annuity }
Interest on balance }

FIRST METHOD.

LEASEHOLD PROPERTY ACCOUNT.

Dr. (Jan. 1, 1890, to Dec. 31, 1893.) *Cr.*

		£	s.	d.			£	s.	d.
1890					1890				
Jan. 1.	To Balance...	160,000	0	0	Dec. 31.	By Annual Redemption	45,121	17	10
Dec. 31.	,, Interest...	8,000	0	0	,,	,, Balance ...	122,878	2	2
		168,000	0	0			168,000	0	0
1891					1891				
Jan. 1.	To Balance...	122,878	2	2	Dec. 31.	By Annual Redemption	45,121	17	10
Dec. 31.	,, Interest...	6,143	18	1	,,	,, Balance ...	83,900	2	5
		129,022	0	3			129,022	0	3
1892					1892				
Jan. 1.	To Balance...	83,900	2	5	Dec. 31.	By Annual Redemption	45,121	17	10
Dec. 31.	,, Interest...	4,195	0	1	,,	,, Balance ...	42,973	4	8
		88,095	2	6			88,095	2	6
1893					1893				
Jan. 1.	To Balance...	42,973	4	8	Dec. 31.	By Annual Redemption	45,121	17	10
Dec. 31.	,, Interest...	2,148	13	2	,,	,, Balance ...			
		45,121	17	10			45,121	17	10

By the above method it will be seen that the amount we discovered by a somewhat elaborate calculation on page 370 has been placed to the credit of this account (and of course to the debit of Profit and Loss) every year. The effect of this course is to extinguish the balance by the end of the fourth year.

SECOND METHOD.

LEASEHOLD PROPERTY ACCOUNT.

Dr. (Jan. 1, 1890, to Jan. 1, 1894.) *Cr.*

		£	s.	d.			£	s.	d.
1890					1890				
Jan. 1.	To Balance...	160,000	0	0	Dec. 31.	By Balance...	168,000	0	0
Dec. 31.	,, Interest...	8,000	0	0					
		168,000	0	0			168,000	0	0
1891					1891				
Jan. 1.	To Balance...	168,000	0	0	Dec. 31.	By Balance...	176,400	0	0
Dec. 31.	,, Interest...	8,400	0	0					
		176,400	0	0			176,400	0	0
1892					1892				
Jan. 1.	To Balance...	176,400	0	0	Dec. 31.	By Balance...	185,220	0	0
Dec. 31.	,, Interest...	8,820	0	0					
		185,220	0	0			185,220	0	0
1893					1893				
Jan. 1.	To Balance...	185,220	0	0	Dec. 31.	By Balance...	194,481	0	0
Dec. 31.	,, Interest...	9,261	0	0					
		194,481	0	0			194,481	0	0
1894									
Jan. 1.	To Balance...	194,481	0	0					

Notice how the successive balances of this account, *minus* the corresponding balances of Depreciation Fund Account on the opposite page, equal the successive balances of the Leasehold Property Account (First Method). For instance :—

	£	s.	d.
Jan. 1, 1892	176,400	0	0
Less Depreciation Fund	92,499	17	7
	83,900	2	5

SECOND METHOD.

LEASEHOLD DEPRECIATION FUND.

Dr. (Dec. 31, 1890, to Jan. 1, 1894.) *Cr.*

		£	s.	d.			£	s.	d.
1890 Dec. 31.	To Balance...	45,121	17	10	1890 Dec. 31.	By Annuity ...	45,121	17	10
		45,121	17	10			45,121	17	10
1891 Dec. 31.	To Balance...	92,499	17	7	1891 Jan. 1.	By Balance...	45,121	17	10
					Dec. 31.	,, Annuity...	45,121	17	10
					,,	,, Interest ...	2,256	1	11
		92,499	17	7			92,499	17	7
1892 Dec. 31.	To Balance...	142,246	15	4	1892 Jan. 1.	By Balance...	92,499	17	7
					Dec. 31.	,, Annuity...	45,121	17	10
					,,	,, Interest ...	4,624	19	11
		142,246	15	4			142,246	15	4
1893 Dec. 31.	To Balance...	194,481	0	0	1893 Jan. 1.	By Balance...	142,246	15	4
					Dec. 31.	,, Annuity...	45,121	17	10
					,,	,, Interest ...	7,112	6	10
		194,481	0	0			194,481	0	0
					1894 Jan. 1.	By Balance...	194,481	0	0

The credit balance of this Depreciation Fund account now equals the debit balance of Leasehold Property account on the opposite page. Hence the two accounts extinguish one another.

With respect to this "Reserve" account notice what is said in Lesson IX. on the subject, and determine to which of the two classes of Reserve Accounts this belongs.

NOTE.—The student may perhaps ask, Why take all this trouble to consult annuity tables and frame special accounts, instead of simply dividing the present value of the property by the number of years yet to run?

The answer is that the former method *distributed* the amount chargeable to Profit and Loss evenly, whereas the simple division method throws a greater proportion of burden on the earlier than the later years.

ILLUSTRATION.

	Debits to Profit and Loss.		Difference by the latter Plan.
	Simple Division Plan.	Annuity Plan.	
1st Year	Set aside ... £40,000 Int. on £160,000. 8,000		
	48,000	£45,122	£2,878 less
2nd Year	Reserve ... ... 40,000 Int. on £120,000. 6,000		
	46,000	45,122	878 less
3rd Year	Reserve ... ... 40,000 Int. on £80,000... 4,000		
	44,000	45,122	1,122 more
4th Year	Reserve ... ... 40,000 Int. on £40,000 . 2,000		
	42,000	45,122	3,122 more

Sometimes it happens that the early years of a business are those in which it can best stand a heavy expense, and in this case the proprietors may prefer to take a little extra burden on their shoulders at first in order to lighten the weight in future years. Mr. Norton recommends this course in his invaluable work on Manufacturers' Bookkeeping, page 234.

(Here work out Exercise XXXIX.)

EXERCISES TO LESSON XV.

Exercise XXXIX.

I have certain property worth £1,000 the value of which will entirely lapse in five years. (1) Determine arithmetically the amount to be debited each year to P. and L., so that the whole may be written off, including interest, by five equal instalments. (2) Work out the Property and P. and L. Accounts for the five years on this basis. (3) Work out Property and P. and L. accounts by the use of a Leasehold Depreciation Fund, and show that the result coincides with that of the last Exercise.

Exercise XL.

From the Trial Balance given below make out a Trial Closing Sheet. Hence draw out Profit and Loss account and Final Balance Sheet, after attending to the following instructions :—

Allow for Depreciation on the various classes of property according to the scale given on page 362, using your judgment where more than one rate is there quoted. Credit Capital with interest at 4 per cent. Take value of Stock on Dec. 31 at £4,265. (Calculations may be made to the nearest £.)

TRIAL BALANCE.—December 31, 1895.

	£	£
Purchases	10,700	
Sales	...	18,600
Sundry Debtors	25,500	
,, Creditors	...	17,500
Goods, Jan. 1	5,000	
Freehold Buildings—In good state of repair and in growing neighbourhood ...	10,500	
Machinery—Not the most modern, but in fair condition, working under great pressure	2,000	
Boilers, nearly new	500	
Horses, town work	300	
Ship *Julia*, recently overhauled	7,500	
Office Furniture, &c.	250	
Profit and Loss	1,600	240
Capital A.B.	...	28,760
A.B.'s Drawing Account	1,250	

Exercise XLI.

Journalise the following transactions (which are not necessarily the transactions of the same firm).

July 1, Bought wagons for cash, £1,000. July 2, Paid for painting house property, £20. July 3, Ship "Albatross," damaged by storm to extent of £300, 75 per cent. of which was insured. July 4, Added a wing to one of my houses at a cost of £650. July 5, Bought printing machine valued at £600. July 6, Purchased for cash a new type set up, £12. July 7, Being an author, I purchased a "Remington" typewriter, £26. July 8, Alterations and improvements are effected to my shop which I hope will greatly increase my trade, £75. July 9, Write off 12½ per cent. depreciation from my steam rollers, valued at commencement of period at £14,000. July 10, Depreciation of machinery 7½ per cent. Original value, £21,000. July 12, Office furniture depreciated 5 per cent. Value originally, £60.

Exercise XLII.

Enter the following transactions direct into Ledger and prove :—

Jan. 1, Commenced with Houses valued at £6,000 and Cash £1,000. Feb. 1, Converted a tiled house into a storied house £1,000 cash. Mar. 1, Sold a house for £1,500. April 1, Cost of repairing the houses £200. May 1, Rent due by the occupier W. Smith for four months £800. June 1, Received from W. Smith £800. June 30, Received from Mr. Smith rent for May and June £400. June 30, The houses have depreciated in value £500.

Exercise XLIII.

Journalise the following transactions :—

July 1, Bought ship "Clive" for cash £15,000. Aug. 1, Replaced some of the wooden portions by iron, cost £1,000. Sept. 1, Freight due by Jones £500. Oct. 1, Cost of repairs £100. Dec. 1, Depreciation of ship £650.

Exercise XLIV.

(Society of Arts, Arithmetic.)

On Jan. 1 I bought £5,000 Consols at 92½, and sold £1,500 on Feb. 10 at 93¾, £2,000 on March 12 at 92⅞, and £1,500 on April 1 at 92½, having received no dividend. Make out and balance my "Consols Account," exhibiting the profit or loss on them. Then give my total gain or loss, supposing I could have made 5 per cent. per annum by other investments. (Work to nearest penny.)

Exercise XLV.

Jan. 1, 1895, Purchased printing machine B, for £1,500; Cost of carriage and fixing same £20; Jan. 10, Work done by above machine to debit of sundry persons £500; Jan. 12, Printing pamphlets for sale at office (value of pamphlets) £200; Jan. 18, Printing sundry advertisement sheets, prospectuses, circulars, &c. for business purposes £100; Jan. 24, Printing bill heads, memorandum slips, order forms, &c. for office use £50; Jan. 31, Wear and tear of machine at 5 per cent. per annum; Share of machine oil and sundry repairs £25; Cost of fixing patent action to facilitate the feed, £40.

Make out "Machine B account" and "Revenue from Machine B account" for January, 1895.

Exercise XLVI.

A. B. has Business Premises which cost £1,000 seven years ago, and originally stood in his books at that sum. They were, however, not by any means new, and required constant repairs and alterations. The cost of these averaged £80 a year, and has been debited by A. B. to Premises Account. Another account has been opened by him called Depreciation Account (which would have been better named Depreciation Fund). This has been regularly credited with £100 per annum (P. and L. being debited). It is now determined to pull down and rebuild. The New Premises cost £2,000, £150 worth of material being also used from the old buildings. £70 was allowed by the Contractors for old materials, which they carted away for their own use.

Make out all the accounts necessary to show the true position at the present time, dealing with Depreciation Account as you think best, and state how much of the necessary expense of rebuilding has to be borne by (Fixed) Capital Account, and how much should be debited to P. and L.

LESSON XVI

PROFIT AND LOSS

CAPITAL may grow or decline in two ways :—

(1) By Services rendered and received.

(2) By Proprietary additions and withdrawals.

It is the first of these two methods of growth or decline that we have to do with in the present lesson.

It may be said, Is there not a third way, viz. by good or ill fortune? Now it is quite true that in most occupations there is a speculative element. The farmer prepares the soil, and sows the seed, and many circumstances beyond his control and quite unconnected with the amount of labour bestowed determine the amount and the value of his produce. This is equally true of many commercial undertakings. But it must be remembered that profit is, after all, the reward of *services rendered* by the Capitalist, and that *in the main* the reward is proportioned to the services (or Capital would seek other outlets).

When labour is conspicuous by its absence, and luck is the sole cause of gain or loss, the undertaking is a gambling concern, and we are not writing a manual of bookkeeping for gamblers.

But when good or ill fortune is merely an inevitable accompaniment of honest labour (as in the case of Underwriters and Insurance Companies), then we may say that good fortune, when it comes, is part of the reward for the services that have been **rendered**, and that bad fortune is part of the price paid for the advantage (**received**) of being able to carry on the undertaking.

The Services that are rendered, in exchange for which we receive an increase of Capital, may be either services connected with some material object, such as services bestowed on the production and distribution of Goods, or services pure and simple, such as the services of a lawyer or a doctor. We may distinguish these two kinds of services by calling them "Mixed" and "Pure."

I. MIXED SERVICES.

The services rendered by the Manufacturer, the Farmer, the Merchant, the Retailer, the Banker, and the Bill Discounter may all be called Mixed services. We have already seen from Lessons X. to XV. how gains and losses arising from this class of services are recorded in the books. The methods we have already examined may all be grouped under two heads :—

(1) The Profit or Loss on each separate transaction may be recorded as it occurs either in Profit and Loss account or in some subsidiary account.

(2) The gain or loss on any special branch of Capital may be found by adjustment of the book value of the account of that branch, with the actual value, and the transference of the difference to Profit and Loss.

There is a third way of ascertaining Gains and Losses, peculiarly applicable to a class of mixed services which we have not yet considered—namely, those that are rendered by *Hotels and Schools.*

With respect to accounts of this class we must notice two things :—

(1) The importance of making due allowance for those personal expenses which in the practical working of the

concern are inevitably entangled with the expenses of the business.

(2) The advantages of tabular methods.

(1) PERSONAL EXPENSES.

(*a*) All personal expenses that can conveniently be kept distinct must be so kept throughout.

(*b*) An allowance must be made before balancing for such share of the general expenses of the establishment as might justly be estimated as coming under the head of personal and family expenses.

Suppose, for example, the proprietor of a Boarding-house lives with a family of six individuals on the establishment. He thinks it right to allow £20 each for board, £8 each for lodging, £2 each for attendance, and £5 altogether for stationery and stamps. He will therefore make the following Journal entry in his books :—

	£	£
A.B. Private account *Dr.*	185	
To Provisions account	...	120
,, Apartments account	...	48
,, Attendance account	...	12
,, Stationery, &c.	...	5

These last four items, on being posted to the credit of their respective accounts, will reduce the balances that have to be transferred to P. and L., and thus show more truly the net gain or loss arising out of the business of the proprietor.

(Here work out Exercise XLVII.)

(2) TABULAR METHODS.

We have already learnt that it is desirable as much as possible to collect together in the books of original entry all debits or credits that belong to the same account.

When the transactions that have to be recorded are of such a nature that *both debits and credits* can be thus analysed and collected, the best way of doing this is by the tabular system.

Let me take one or two illustrations of this method :—

HOTEL PROPRIETOR'S DAY BOOK OR JOURNAL.

	No. 1. A.	No. 2. B.	No. 3. C.	No. 4. D.	
Apartments	5/-	10/-	2/6	5/-	22/6
Provisions	10/-	18/-	7/-	8/-	43/-
Wines, &c.	—	12/-	1/-	-/6	13/6
Sundries	6/-	20/-	4/-	1/-	31/-
	21/-	60/-	14/6	14/6	110/-

Here the four visitors, A. B. C. and D., are *debited* with 21*s.*, 60*s.*, 14*s.* 6*d.*, and 14*s.* 6*d.* respectively, whilst the accounts Apartments, Provisions, Wines, &c., and Sundries are *credited* with 22*s.* 6*d.*, 43*s.*, 13*s.* 6*d.*, and 31*s.* respectively.

(Of course in practice these accounts would be considerably amplified, but the principle is shown better in the simple form I have given.)

Now notice the posting of this Day Book into a *daily Tabular Ledger account* in the

VISITORS' LEDGER.

Dr. Sundry Visitors, Monday, Jan. 7, 1895. *Cr.*

Visitors Number	Brought Forward.	Daily Total.	Total.	Allowances.	Cash.	Carried on.	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1	2 5 0	1 1 0	3 6 0	1 6	3 4 6	—	3 6 0
2	3 12 6	3 0 0	6 12 6	—	—	6 12 6	6 12 6
3	7 6	14 6	1 2 0	—	1 2 0	—	1 2 0
4	1 6	14 6	16 0	—	—	16 0	16 0
	6 6 6	5 10 0	11 16 6	1 6	4 6 6	7 8 6	11 16 6

See how each side of this account **proves** page by page, and how the debit total agrees with the credit total.

We have thus posted the Day Book *debits*. Now notice the Day Book *credits*. These are in fact credits to P.and L., only we have subdivided our profits under four heads (which would in practice no doubt be ten or twelve). By appending two additional columns to the Day Book the total of each of these can be kept up *day by day*. The proprietor can thus watch its growth. There is also a most useful intermediate check on the accuracy of the working, by adding the total of "Brought forward" column to the total of the "Daily result" column. This will equal the total of the "Carried forward" column, which is carried to the "Brought forward" column of the next day, and so on day by day till the end of the month, when they are posted to P. and L.

Now take a look at the Day Book for the 31st, and the whole thing will become clear:—

DAY BOOK.—Jan. 31.

	No. 1.	No. 2.	No. 3.	No. 4.	Daily Result.	Brought Forward.	Carried Forward.
	£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Apartments	5 0	...	5 0	5 0	15 0	28 5 0	29 0 0
Provisions .	15 0	...	12 0	10 0	1 17 0	74 3 0	76 0 0
Wines ...	2 0	...	0 6	...	2 6	14 17 6	15 0 0
Sundries ...	3 0	...	2 0	2 6	7 6	40 12 6	41 0 0
	1 5 0	...	19 6	17 6	3 2 0	157 18 0	161 0 0

The final column headed "Carried forward" is *not* carried forward on the *last* day of the month, but is posted to the credit of P. and L. (see page 384), and represents the **gains** of the Hotel arising under the respective heads of account that are enumerated.

(Here work out Exercise XLVIII.)

But what about the **Losses**? How do they get posted to P.and L., and is there any way of establishing an intermediate check here, as in the case of the gains? Let us see.

With respect to these expenses it is quite clear that Profit and Loss or certain subsidiary accounts will have to be *debited*, and that Cash or Sundry Tradesmen will have to be *credited*. Here again the analytical or tabular method will be immensely helpful as an intermediate check on the final proof.

Imagine yourself about to construct a system for the purpose of recording such expenses. You would do well to attend to the following cautions :—

Caution 1.—Do not take mere CASH outgoings as the basis of monthly expenditure. Therefore allow for monthly proportion of rent, rates, taxes, &c. [*Student*. How "allow"? *Author*. By a Journal entry. *Student*. But what Journal entry? *Author*. Think.]

Caution 2.—In case of Purchasing large quantities of **Stores** of provisions : Open a "Stores account" (or several). Debit this account on receipt of stores, and credit it on giving out stores for daily consumption.

Caution 3.—Before deciding under what headings to group your expenses, consider what form you wish your P.and L. to assume or in what form it has previously been made out.

Here is a sample of how the record might be made to flow through its appointed channels until reaching P. and L.

TABULAR JOURNAL.

Monthly Expenses of Hotel.

	Rent, &c.	Provisions.	Wines.	Sundries.	Total.
Accounts to be Credited.	£	£	£	£	£
Sundry Creditors, A ...	...	3	2	7	12
,, ,, B ...	...	10	...	...	10
,, ,, C ...	...	12	...	...	12
&c. &c.	25	20	...	23	68
Stores Department, A ...	...	15	...	...	15
,, ,, B ...	...	...	10	...	10
&c. &c.	...	...	...	...	...
Cash	5	15	...	15	35
Total to debit of P.&L.	£30	£75	£12	£45	£162

LEDGER, TABULAR.

Dr. SUNDRY CREDITORS. *Cr.*

January, 1895.

Allowances Received.	Cash Paid.	Balances Carried to February.	Totals.	Name of Creditor.	Balances Brought from Dec.	Journal Credits: see above.	Totals.
£	£	£	£		£	£	£
2	34	—	36	A	24	12	36
—	20	—	20	B	10	10	20
—	—	12	12	C	—	12	12
6	110	24	140	&c.	72	68	140
8	164	36	208		106	102	208

PROFIT AND LOSS.

Dr. January, 1895. *Cr.*

Rent	£30	Apartments	£29
Provisions	75	Provisions	76
Wines, &c.	12	Wines	15
Sundries	45	Sundries	41
		Net Loss	1
	£162		£162

(Here work out Exercise XLIX.)

Here there is an apparent net Loss of £1, but perhaps the proprietor has forgotten to "allow for" his own personal share in the various hotel expenses, in which case the following Journal entry will put quite a different aspect on the final Profit and Loss Account.

Capital account	£20	
To Rent account		£4
,, Provision account . .		8
,, Wines, &c.		1
,, Sundries		7

Whence, by passing through the subsidiary accounts, we derive the following amended P. and L. account.

Dr. PROFIT AND LOSS. *Cr.*

Rent	£26	Apartments	£29
Provisions	67	Provisions	76
Wines, &c.	11	Wines	15
Sundries	38	Sundries	41
Net Profit	19		
	£161		£161

And it is manifest that this is a more exact record of facts than the preceding one.

Remember that I have not attempted to go into details. I should very soon betray my ignorance if I tried to do so, but I hope I have said enough for you to be able to grasp and apply when necessary the main principles of the tabular system.

(Here work out Exercise L.)

SCHOOLMASTER'S BOOKKEEPING.

The services rendered by a schoolmaster who receives boarders are of a mixed nature, and are somewhat akin in this respect to those that are rendered by a hotel proprietor. We shall not be surprised therefore to find a similar method of keeping accounts.

The ordinary treatise on Bookkeeping gives little help in this direction. It takes for granted that one who teaches others never needs to be taught! Without attempting myself to do this, I venture to give a slight sketch of my own methods of private bookkeeping, in order to help students to realise the adaptability of the principles already studied to all sorts of circumstances.

I. I keep four *books of original entry*. In principle the four are one. (i.) A School Journal on the Tabular System, made up and posted at end of each term, debiting each parent or guardian with school fees, and crediting in columns various

heads of P. and L. (ii.) A Monthly Cash Abstract compiled from a rough daily cash book. (iii.) A Bank account compiled monthly from the counterfoils of the cheque book and paying in book. (iv.) An ordinary Journal—part of this being sometimes kept in tabular form—crediting all liabilities incurred to Tradesmen and others.

II. I keep the following *Ledger Accounts*. (i.) One account for Parents and Guardians—on the tabular system like Visitors' account (page 381). This account occupies a page of the Ledger, and is balanced and carried to the next page once a month. (ii.) One account for Sundry Creditors, kept likewise and balanced once a month. (iii.) Various Suspense, Subsidiary, Reserve, and working accounts according to circumstances. [*E.g.* I have an account for Sundry Boys' Cash Expenses, which I debit with all the various twopences and sixpences spent on their behalf. These are analysed and charged in a column of the School Journal aforesaid, the total of this column being posted to the credit of Boys' Expenses account in the Ledger.]

III. I draw up a rough monthly balance, *estimating* monthly *proportion* of school fees, &c. This balance invariably proves to a penny.

IV. The final Profit and Loss account and Balance Sheet is drawn up at the end of each term with very little trouble on this system. The items "Debts Payable" and "Debts Receivable," which take so long to arrive at by the system of separate accounts to each person, are *already ascertained and* **proved** in the Tabular accounts that have been referred to above. The rest of the work is soon done, and very often the whole thing balances exactly *on the first trial.* If not we go at it till we find the mistake.

(Here work out Exercise LI.)

II. SERVICES PURE AND SIMPLE.

We have now dealt sufficiently with the method of recording accounts of Mixed Services, and must turn our attention to the growth of Capital by means of Services Pure and Simple.

In considering a system of Bookkeeping suitable to record the services of a professional man, a question of some difficulty confronts us at the outset : On what basis shall he reckon his annual profits ? On the basis of "Services rendered" during the year, or on the basis of "payment received for services rendered" during the year ?

You will see at once the importance of the distinction. By the former method he might, and probably would, include in his profits some charges made (for services rendered) that are never realised. On the other hand, cash receipts are not always an index to work performed, and the profits made in one year would be represented by cash coming in during the next year. The former method is the more correct, the latter in some respects the more prudent. The former method is more in conformity with the principles of Double Entry, the latter presents some difficulties if we want to **prove the books.**

> [By the way :—*Do* professional men prove their books ? I read in a book entitled *Bookkeeping for Solicitors*, "The books of solicitors cannot be kept on the same principles as those of other men of business, and no other person's books can be kept like theirs." And further on, "What is termed Double Entry is not (with few exceptions) used by Solicitors." If this is so, Messrs. Hamilton and Ball must revise the following sentence occurring on page 2 of their well-known treatise, "Double Entry—a method equally applicable to every description of accounts whether commercial, public, fiduciary or private."]

In considering the merits of these two rival methods the first essential is to point out certain conditions that must be observed in either case.

(i.) If all services are charged in the books when rendered, and Profit and Loss account is drawn up on this basis, then a

reserve that is fully adequate must be made for a certain proportion of these charges that will probably never be received. This may be done by means of a Bad Debts Reserve Fund as shown on page 293 or by any similar method.

(ii.) If the profit is to be decided on the basis of "cash receipts for services rendered," then the debts due for services not yet paid for cannot be reckoned as Assets.

How then can they be recorded without disturbing the Double Entry system? The following method may be suggested :—

(*a*) Keep two sets of accounts, the one as a rough memorandum of debts due from Sundry Persons, and the other a complete abstract of all other accounts from which to compile the final P. and L. and Balance Sheet.

(*b*) Post the details of services rendered (from your Daily Diary or Waste Book) into your rough Memorandum Book, which should either be indexed throughout like an Address book or supplied with a good index at the beginning (see page 92).

(*c*) Keep the "receipts for services rendered" in a separate column of the Cash Book, and journalise the *total* of this column periodically as follows :

[α] *Sundry Debtors Dr. To P. and L.*

For services rendered (but not hitherto charged).

[β] *Cash Dr. To Sundry Debtors Cr.*

For payment of the above.

This second debit need not be posted. It is already made in the Cash Book. Sundry Debtors' account should be made in tabular form (see page 383), and to this same account can be posted all definite charges for Cash or Sundries actually supplied if desired.

By this method the entries in the rough Memorandum

Book referred to above form no part of the system that is balanced and proved from time to time. This book however forms the basis (i.) for making out accounts to be rendered to clients, (ii.) for ascertaining the amount due to the proprietor for bills unpaid.

With respect to the other side of a professional man's P. and L. account, a monthly abstract of his Cash Book will probably be the best way of enabling him to group his expenses under as many heads as he desires. Outstanding liabilities before balancing must not be forgotten. These can be journalised either through an ordinary or a tabular Journal. The advantage of the former is that it requires no special systematising, and adapts itself readily to all the varying circumstances of life.

Notice carefully that under this system there will be—

(*a*) No column needed for discounts and allowances made on settlement of clients' accounts.

(*b*) No separate "posting" of these payments from the Cash Book, except a memorandum of payment in the Memorandum Ledger.

(*c*) No proving of the Memorandum Ledger.

(*d*) No Debts Receivable shown in the Final Balance Sheet except those for cash or goods actually supplied.

(Here work out Exercise LII.)

Now consider attentively the result of such a system as the above (i.) on a growing business, (ii.) on a declining business.

(i.) *On a growing business.*

Imagine that A. B. starts in professional life on Jan. 1, 1895, and that during that year he renders £600 worth of services to other people, calculated on the charges made in his own

books. Let us call this the amount of "business done." In 1896 this amount rises to £900 and in 1897 to £1,200. Let us further suppose that his cash receipts each year are one third of the amount of business done during the year, *plus* two thirds of the gross amount due to him at the beginning of the year, *less* 10 per cent. for sundry allowances. His other business expenses we will say come to £200 a year *plus* 20 per cent. on the amount of business done.

A. B., *from prudential motives*, determines to calculate his profits on the basis of Cash receipts for services rendered. What is the result?

First year: Expenses £320; Receipts £180; Loss £140
(Let up hope A. B. has some private means.)
Second year: Expenses £380; Receipts £510; Gain £130
Third year: Expenses £440; Receipts £801; Gain £361

But the true profit on the basis of business done (even after allowing 20 per cent. of the gross debts receivable at the end of each year as a reserve fund for bad debts, &c.), works out as follows:

First year £600 − (320 + 80 + 20) = £180
Second year £900 − (380 + 67 + 56) = £397
Third year £1,200 − (440 + 62 + 88) = £610

Showing that A.B. has under-estimated his profits for the three years by the amounts £320, £267, £249 respectively.

And a very wise and prudent thing for him to do, I have no doubt you say. And so it is—*as long as his business is a growing one.* Perhaps it may be as well for us to take a look at the other side of the question now.

(ii.) *On a declining business.*

During the next three years A. B.'s practice is on the down grade, the business done amounting to £1,200, £900, and

£600 in the 4th, 5th, and 6th years respectively. Reckoning his net profits in the same way as heretofore, he makes them £547, £579, and £450. But what are the facts? The actual net profit made was £630 in the 4th year, £447 in the 5th, and £246 in the 6th. (See over leaf, and work out these figures for yourself.)

A. B. does not see *in his P. and L. account* any evidence of a declining business until the 6th year. In 1899 he imagines he has earned £132 more than he really has, and in 1900 he makes a mistake in the same direction to the extent of no less than £204.

Perhaps you may think that as the sum total of his estimated profits, 1895–1900, is less than the sum total of his actual profits, it does not really matter very much, but the truth is that all deviation from the facts is dangerous. Bookkeeping that is not a record of facts is a delusion and a snare. If you are going to make debits in your books that you know very well you could not sustain in a court of law, I can quite understand your not wishing to include them amongst your straightforward legal assets. They have no business there. But on any other supposition, it is surely better to reckon them as so much honest property, making the most ample allowance that prudence and experience suggest by means of the tried method of a Reserve account.

(Here work out Exercise LIII.)

I have set forth the state of affairs just commented on in the form of a table, and you will find the figures there exhibited and the principle involved worth your serious consideration.

The notion of reckoning profits on a basis of Cash receipts (ignoring work done on credit) has such a specious and attractive sound, that it certainly does not seem, until it is carefully examined, that there can possibly be any danger lurking beneath so innocent a suggestion. But the most critical time in the career of any business is when it first begins to decline, and any

system which disguises the first symptoms of such a change, and deludes the proprietor with the idea that his profits are still on the increase long after they have begun to diminish, must surely be a system better honoured in the breach than the observance.

NET PROFIT ON A CASH BASIS.

	1895	1896	1897	1898	1899	1900
Services rendered to clients during year	600	900	1,200	1,200	900	600
Cash received for services ...	180	511	801	987	959	770
Sundry allowances on above receipts	20	56	88	109	106	85
Gross Debts Receivable Dec. 31	400	733	1,044	1,148	983	728
Reserve for future Bad Debts, 20 per cent.	80	147	209	230	197	146
Net D.R.	320	586	835	918	786	582
All other business expenses .	320	380	440	440	380	320
Profit or Loss on simple cash basis	140 Loss	131 Profit	361 Profit	547 Profit	579 Profit	450 Profit
Actual Profit	180	397	610	630	447	246
Proprietor assumes Profit to be *less* than it is by ...	320	266	249	83	...	...
Proprietor assumes Profit to be *more* than it is by ...	...	...	...	...	132	204

You will perhaps remember that in Lesson XIV., under the head of *Taking Stock*, we had occasion to refer to another instance of excessive prudence "o'erleaping itself"—like vaulting ambition.

The one simple way to avoid all these pitfalls is to determine to stick as closely as possible to facts, from beginning to end.

(Here work out Exercise LIV.)

In many cases a professional man might adopt a modification of the plan suggested on page 106 of the *Primer of Bookkeeping*,

where it was suggested that a Journal might be constructed to receive a record of all ordinary transactions and to balance and prove, line by line, and page by page.

A professional man does not deal in "Goods," and has probably very few "Debts Payable." He can therefore dispense with these two columns and construct a **Synoptical Journal**, which we will call an **Automatic Day Book**, on the following simple plan :—

Dr. AUTOMATIC DAY BOOK. *Cr.*

Cash IN	Services IN (Losses.)	Ledger Accounts.	Date.	Name of Account.	Ledger Folio.	Nature of the Transaction.	Ledger Accounts.	Services OUT (Gains.)	Cash OUT
£		£					£	£	£
20	...	...	Jan. 1	A.B.		Cash received ...	20	...	...
...	...	32	,, 2	M.N.		Cash paid ...	...	2	30
...	...	50	,, 3	X.Y.Z.		Account rendered &c. &c.	...	50	...

Every transaction must be entered on both sides of this book.

The individual items of the columns headed "Ledger Accounts" are the only ones that will need posting. The other columns can be posted to Cash account and Profit and Loss by totals only.

We have now taken a rapid survey of the various ways by which Gains and Losses are made and recorded in the books. As to the drawing up of a final statement of Profit and Loss there is very little more to be said. When the laws of Book-keeping are carefully applied throughout, the process is to a great extent automatic, and the simple rules given in Lesson V. need very little supplementing.

We shall find it useful however in concluding this lesson to **recapitulate** the various heads under which Gains and Losses appear in the Profit and Loss account, and in the course of this

summary we may find one or two items that call for brief explanation.

PROFIT AND LOSS.

Preliminary Caution.—Before beginning to close the books and draw up P. and L., see that the following matters are attended to so far as circumstances render them necessary :—

(*a*) Liabilities due and not paid.

(*b*) Depreciation.

(*c*) Interest on Capital.

(*d*) Rebate on Bills.

(*e*) Discounts on D. R. and D. P.

(*f*) Provision for future Bad Debts.

(Here work out Exercise LV.)

GAINS.

These may appear in P. and L. under many heads, such as the following :—*Gross Profit*, *Consignments*, *Joint Ventures*, *Separate branches of Trade or Profession*, *Interest*, *Commission*, *Discounts*, *Bad Debts recovered*, *Rents and Dividends*, *Insurance*.

Gross Profit : see Lesson XIV. pages 311 and 315.

Consignments : see Lesson XIV. page 327.

Joint Ventures : see Lesson XIV. pages 332, 333.

Trading Departments : see Lesson XIV. page 338.

Professional Profits : see Lesson XVI. pages 387 to 390.

Interest.—When Interest is charged on overdue accounts, or on any branches of property (*e.g.* see Leasehold Property Account, page 372), it is better to keep a subsidiary account for this branch of profit ; the balance of this account forms the item "Interest" in P. and L.

Commission.—Any kind of service rendered at a percentage on the value of the amount of business transacted may appear under this head. *Particulars should be given* of any exceptionally heavy gains of this description.

Discounts.—Discounts allowed to the proprietor on settlement of account, Discounts charged for cashing Bills Receivable, and Rebate allowed on retiring Bills Payable, all appear under this head. Sometimes gains of this description are merged with losses arising from discounts allowed to other people in one general "Discount Account." In this case, only the *balance* of Discount account appears in P. and L. It is much better however to show gains and losses under this head separately, which may be done by the use of *two* Subsidiary Accounts, or in some cases by posting the totals of Discount column in Cash Book direct into P. and L.

Bad Debts.—Gains arising from Bad Debts unexpectedly recovered should be shown separately in P. and L. unless the amounts are insignificant, in which case they may be placed to the credit of Bad Debts account as a set off against the losses arising from bad debts written off during the current year.

Rents.—Property accounts on which rent is received should not be credited with the rents derived therefrom. Rent account (subsidiary to P. and L.)-should be credited *when the rents fall due*, and the balance of this account taken to P. and L.

Insurance.—(*a*) If I insure property for other people, guaranteeing them from loss, on their paying me a **premium**, these "premiums" thus received are a source of gain, and appear on the *Cr.* side of P. and L.

(*b*) If I insure my own property by paying a premium, the amount of the policy is usually fixed at a sum amply sufficient to cover the value of the property *plus* the amount of the premium. The premium paid is a **loss**, but in the case of the total destruction of the insured property there is an apparent **gain** on the whole transaction which would appear under this head.

Of course I do not refer to deliberate and heavy **over-insurance** with fraudulent intent. Men who practise this species of roguery would be sure to disguise the record of such illicit gains in their books as completely as possible.

(Here work out Exercise LVI.)

LOSSES.

These may appear under a still greater variety of heads. One cannot pretend to exhaust the list, but the most common are the following:—*Trade Expenses* (including *Wages*, *Salaries*, *Rent*, *Rates and Taxes*, *Travelling*, *Carriage*, *Postages and Telegrams*, *&c.*, *&c.*), *General Working Expenses*, *Bad Debts*, *Discounts*, *Commission*, *Insurance*, *Interest*, *Depreciation*.

Trade Expenses : see Lesson VIII.

With respect to this most troublesome item, I can give you two cautions which cover (if you think them over) all that can be said on the subject :— (1) Take care to include everything that belongs. (2) Take care to exclude everything that does not.

(i.) *The principle of inclusion.*—Items that are often forgotten by business men are rent, wages, and salaries, *due and not paid* on the day of balancing, office stationery or repairs, the bill for which has not been sent in, &c., &c. Comparison with the preceding years will assist you in hunting out such items as these, which must be journalised and posted before concluding the balance. In making the credits for items of this kind, avoid such terms as "Outstanding Trade Charges," "Rent," "Salaries," "Repairs," &c. I know very well that they are sanctioned by usage, but they are none the less to be condemned, for they *disguise the fact* that these are personal accounts, representing definite liabilities due to certain persons. The following terms may be suggested as substitutes :—"Landlord," "Clerks," "Sundry Local Creditors," "Sundry Tradesmen," "Collectors of Rates and Taxes," "Commissioners of Inland Revenue," &c., &c.

(ii.) *The principle of exclusion.*—No amount should be debited to Trade Expenses account that can with justice and propriety be debited to any definite personal or other property account. The proprietor of a business usually takes good care of this, and his clerks soon learn to do likewise, but you may meet cases where the caution has to be borne in mind. Take a very simple instance. A. B., the proprietor, sends a sixpenny telegram to C. D. What account shall he debit? C. D.'s account certainly—if he can fairly do so. If not, let him debit the particular department of his business on account of which the telegram was sent. If these both fail, *and not otherwise*, he must debit Trade Expenses. Notice also under this head the caution given in Lesson XIII. not to debit this account with payments made during the year for liabilities incurred (and debited) last year.

General Working Expenses.—The expenses of many industrial undertakings (*e.g.* Farms, Hotels, &c.) are of a very miscellaneous nature, and give great trouble when the books have been kept loosely and there has been little previous analysis. On the contrary, when they have been carefully analysed week by week or month by month, Cash Expenses by columns in the Cash Book, and Credit Expenses by means of a Tabular Journal, the final work of the accountant is swift and sure. The totals of the various columns in the preparatory books supply the needed facts, and the transfer is effected by means of Journal entries.

Bad Debts : see Lesson VIII. page 115.
Also Lesson XIII. page 293.

Discounts: see Lesson VIII. page 113.
Also Lesson XIII. page 295.

Commission.—Charges for commission are usually incurred on account of some special piece of business (such as Consignment), and would then appear in that account, diminishing the net profit thereon.

Insurance.—The premium paid for insuring goods or merchandise is debited to goods or merchandise account, but the premium paid for insuring fixed capital is debited to P. and L. A subsidiary account is not often needed.

Interest.—Before closing P. and L., Capital account should be *credited* and P. and L. (or Interest account) debited, with interest on the amount of Capital in the business at the rate of 5 per cent. *per annum.*

Thus if A. B.'s capital on Jan. 1 was £5,000 and there were no additions or withdrawals during the year, the entry on Dec. 31 would be

Profit and Loss *Dr.*	250	
To A. B. Capital Account		250

(For Interest on Capital during 1895.)

Further illustrations of this point will be given in the next lesson.

Depreciation: see Lesson XV.

(Here work out Exercise LVII.)

The familiar question in examination papers: "Prepare a Profit and Loss account from the Trial Balance given," can hardly present any difficulty now.

The student has only to remember (i.) that all balances that do not represent definite Assets or Liabilities need **Transfer**, and (ii.) that balances representing Assets or Liabilities may need **Adjustment**, and the difficulties of exercises of this class will quietly melt away.

By way of illustration, take a question from the Intermediate Examination of Chartered Accountants.

Prepare Profit and Loss Account and Balance Sheet from the Trial Balance and particulars given over leaf:—

[NOTE.—The remarks given in the fourth column form no part of the original question. They have been added by me as a guide to students.]

TRIAL BALANCE. June 30th, 1891.	Dr.	Cr.	REMARKS.
	£	£	
Capital (A. B.)...		14,960	Proprietary a/ct.
Drawing Account (A. B.) ...	420		Transfer to Cap. a/ct.
Bank Overdraft		145	*LIABILITY.*
Stock, June 30th, 1890 ...	8,000		
Purchases	9,500		
Sales		20,000	
Wages	6,100		
Carriage and Freight ...	1,200		
Coal and Coke	600		
Travelling Expenses	450		
Rent, Rates, &c.	300		
Trade Expenses	500		
Discounts	65		
Machinery and Plant	3,500		**Asset.**
Sundry Creditors		6,800	*Liability.*
Sundry Debtors	4,300		**Asset*** (see note below)
Land and Premises	6,890		**Asset.**
Cash in hand	80		**Asset.**
Stock at end of year £8,550			**Asset.**
Make provision at 5 per cent. on Debts for discount and £200 for loss by bad debts			* Diminution of Asset above.

Transfer to "Trading account" (or to "Goods account" and "Profit and Loss")

The necessary transfers having been made, Trading account shows a gross profit of £1,835, which is reduced to £1,420 by the allowances for Discounts and Bad Debts, as shown by the Profit and Loss Account below :—

Dr. PROFIT AND LOSS. *Cr.*

	£		£
Allowances as under :—			
For Bad Debts	200	By Gross Profit ...	1,835
,, Discounts	215		
Net Profit	1,420		
	£1,835		£1,835

The present Capital therefore stands at £14,960 *plus* £1,420 *minus* Drawings £420, namely £15,960, as shown by the balance sheet.

Liabilities. BALANCE SHEET. *Assets.*

	£		£
Sundry Creditors	6,800	Machinery, &c.	3,500
Bank Overdraft	145	Sundry Debtors ... 4,300	
Net Capital	15,960	Allow for B. D. &c. 415	
			3,885
		Land and Premises ...	6,890
		Cash	80
		Goods	8,550
	£22,905		£22,905

(Here work out Exercise LVIII. and Exercise LIX.)

EXERCISES ON LESSON XVI.

Exercise XLVII.

(1) A farmer who began the year worth £3,000, and the balance of whose Farm account shows a net Loss of £130 for the year 1894, has been living with his family of five persons on the farm. Assume that the living expenses have averaged £10 per head per annum, and allow £25 for share of rent, &c. Make the necessary Journal entries to represent these allowances, and give the resulting Profit and Loss and Capital accounts. Note that he has drawn £120 cash for sundry private expenses during the year. This sum he had entered in his Farm account. (2) What was his actual gain or loss on Farming, and what is his present worth?

Exercise XLVIII.

From the following particulars make out the Hotel Proprietor's (Tabular) Day Book and Tabular Visitors' Ledger for January 31, 1893.

On January 31, 1893, the

Occupant of Room No. 1 owed £48 12*s.* 3*d.*, and on the same day incurred a liability of 14/- for Apartments; 16/- for Provisions; 9/- for Wines, &c.; and 16/9 for Sundries. He also paid £6 on account.

Occupant of Room No. 2—Brot. on £1 2*s.* 6*d.*; Apartments 7/-; Provisions 9/-; Sundries 1/6; Paid account in full.

Occupant of Room No. 3.—Brot. on £2 3*s.* 7*d.*; Apartments 12/6; Provisions 9/6; Wines, &c. 8/-; Sundries 6/7; Paid on account £3.

Occupant of Room No. 4.—Brot. on £1 16*s.* 5*d.*; Apartments 9/–; Provisions 10/3; Wines, &c. 5/–; Sundries 10/–; Paid o/a £3; Discount 10 8. [o/a = on account.]

Occupant of Room No. 5.—Brot. on £1 9*s.* 3*d.*; Apartments 9/6; Provisions 6/–; Wines, &c. 3/6; Sundries 16/–; Paid o/a £3.

Occupant of Room No. 6.—Apartments 5/–; Provisions 6/6; Sundries 6/–; Account paid in full.

Occupant of Room No. 7.—Brot. on £2 1*s.* 2*d.*; Apartments 8/–; Provisions 7/3; Wines, &c. 2/–; Sundries 18/8; Paid o/a £3 6*s.* 7*d.*

Amounts brought on:—Apartments £106 7*s.* 5d.; Provisions £102 9*s.* 8*d.*; Wines £67 5*s.* 11*d.*; Sundries £102 19*s.*

Exercise XLIX.

Assume the total monthly expenses of a Boarding-house to be £375. You are (1) to construct a tabular Journal distributing this amount on the one hand into five distinct channels or subsidiary heads of expense, and on the other hand showing how much of each of these sub-heads of account were settled by cash, and how much and in what proportions the remainder was divided between six creditors A, B, C, D, E, F.

(2) To draw up a tabular Ledger account for the above creditors showing that at the beginning of the month the following amounts were due to them respectively, £10, £20, £50, £25, £12, and £1, and that during the month C.'s old account had been settled less 8 per cent. discount, and that D. had been paid £20 on account. Make the necessary postings from your tabular Journal, and then balance and rule off the tabular Ledger account.

(3) Draw out Profit and Loss, assuming a Gross Profit of £450.

Exercise L.

(Adapted from Society of Arts Paper.)

Journalise, Post, and Prove the following series of Transactions:—

On the 1st of January, 1893, John Andrew, Hotel Proprietor, commenced business with the following balances:—

Freehold Premises value £5,000; Bank Balance £1,418 17*s.* 6*d.*; Cash in House £155 18*s.* 2*d.*; Furniture and Fittings £450; Wines, Spirits, Ales and Minerals £243 15*s.* 10*d.*; Tobacco and Cigars £35 0*s.* 3*d.*; Poultry, Meat, &c. £5 10*s.* 2*d.*; Groceries £27 18*s.* 6*d.*; Sundry Stores on hand £142 8*s.* 7*d.*; Sundry outstanding Visitors' Accounts £50 7*s.* 10*d.* He owed to J. Smith £172 8*s.* 8*d.*; A. Jones £9 18*s.* 4*d.*; W. Taylor £23 5*s.* 6*d.*; Jas. Watson £41 18*s.* 6*d.*; Sundry Persons £92 17*s.* 4*d.*

Jan. 1, Received cash from Visitors £40 5*s.* 6*d.*; Paid into Bank £100. Jan. 2, Paid W. Taylor cheque £23 5*s.* 6*d.*; Paid James Watson cheque £38. Jan 4, Bought of W. Berry Carpets £62 5*s.*; Paid J. Smith by

cheque £150; Received Discount £3 11*s.* 8*d.* Jan. 5, Received cheque from J. Sims for amount written off last year as a Bad Debt £8 15*s.* Jan. 6, Bought of F. Wilkinson Sundry Stores £28 13*s.* 11*d.*; Paid Cash £28 5*s.*; Discount allowed 8*s.* 11*d.* Jan. 7, Paid A. Jones by cheque £9 18*s.* 4*d.* Jan. 8, Bar and Billiard Room Receipts for week £36 14*s.* 5*d.* Jan. 9, Paid into Bank £60. Jan. 11, Paid Poor Rates by cheque £13 5*s.*; Paid James Watson by cheque £3 18*s.* 6*d.* Jan. 13, Received Statement from W. Simpson for Carriage Hire o/a of Visitors £4 3*s.* 9*d.*; Paid W. Berry by cheque £62 5*s.* Jan. 14, Received cheque from Visitor, gave him Cash, and paid cheque into Bankers £25; Bought of A. Jones Cigars as per Invoice subject to 2½ % Discount £50. Jan. 15, Bought Furniture of W. Dunn £132 17*s.* 6*d.*; Received credit note from him for Old Furniture in Exchange £38 5*s.* 8*d.*; Paid W. T. Haines Cash for Sundries £6 18*s.* 11*d.* Jan. 16, Paid W. Tomlinson Cash o/a of Washing for Visitors £3 9*s.* 4*d.*; Bought of J. Smith Wine in Bond £63 17*s.* 6*d.*; Paid H.M. Customs Duty on same, Cash £15 10*s.* Jan. 18, Paid A. Jones by cheque £48 15*s.*; Sundry Bar and Billiard Room Receipts £42 10*s.* 7*d.* Jan. 19, Paid Gas Account, Cash, £9 4*s.* 8*d.*; Paid W. Dunn by cheque £94 11*s.* 10*d.* Jan. 20, Bought of W. Taylor Poultry, &c., as per his Book, £29 15*s.* 4*d.* Jan. 22, Bought of J. Watson Groceries £23 2*s.* 8*d.*; Paid for Sundries in Cash £42 17*s.* 7*d.* Jan. 23, Received Statement from W. Simpson for Carriage Hire o/a of Visitors £5 2*s.* 3*d.*; Paid him cheque £4 3*s.* 9*d.* Jan. 25, Paid J. Watson by cheque £22; Discount allowed £1 2*s.* 8*d.*; Paid W. Taylor by cheque £28 12*s.* 2*d.*; Discount allowed £1 3*s.* 2*d.* Jan. 26, Sundry Bar and Billiard Room Receipts £45 11*s.* 3*d.* Jan. 28, Bought for Cash Sundries £15 18*s.* 5*d.* Jan. 29, Bought of J. Smith Ale as per Invoice £23 10*s.*; Paid him by cheque £22 5*s.*; Discount allowed £1 5*s.* Jan. 30, Sundry Bar and Billiard Room Receipts £36 9*s.* 8*d.* Jan. 31, Cash received on account of Visitors' bills during January and paid into Bank £338 11*s.* 7*d.*; Allowances to customers during month £15 2*s.* 4*d.* (Post to the credit of P.andL. the totals of the last column of your own Tabular Day Book (Ex. XLVIII.), which should amount in the aggregate to £390 14*s.* 6*d.*)

On Jan. 31st John Andrew had the following Stocks on hand :—

Wines, Spirits, Ales, and Minerals ...	£109	13	2
Tobacco and Cigars	53	8	8
Poultry, Meat, &c.	3	7	6
Groceries	18	15	2
Sundry Stores	49	18	11

Credit Interest on Capital £30. Sundry Outstanding Visitors' Accounts £47 2*s.* 11*d.*; Wages and Salaries due this day £24 3*s.* 4*d.*; Depreciation in Furniture £4 10*s.*

Exercise LI.

Journalise, Post, and Prove the following transactions of James Ralph, Schoolmaster, for the months of January, February, March, and April, 1895.

On Jan. 1 James Ralph's position was as follows: Cash in Bank £175, Debts due from Sundry Parents, Guardians, &c. £432, Reserve for Bad and Doubtful Debts £20. School Furniture £500, Books and Stationery, &c. £16. Debts due to Sundry Tradesmen and others £250, Reserve for Repairs Fund £53.

From January 1st to April 30th transactions occurred of which the following are a summary: School Fees amount to £400. Cash advanced at various times to, or on account of, Sundry Pupils £50. Examination Fees paid on account of Pupils £25. Books and Stationery supplied (do not debit P.andL.) £18. Books and Stationery bought on credit £28. Cash received from Parents and Guardians £396. Liabilities incurred to Sundry Tradesmen £156. Cash paid to Sundry Creditors £204. Debts incurred for Prospectuses and other School Expenses £61. Private Expenses *paid* £30. Paid for Sundry Repairs £29. Charge depreciation of School Furniture at the rate of 9 % per annum. Credit Reserve for Repairs a/ct £15. Bad Debts made during Term £19. Board, &c., of Family estimated at £35. Credit Reserve for Future Bad Debts £30. Rent, &c., due to Landlord £50. Current Expenses paid £50.

On April 30th Books and Stationery were worth £36.

N.B.—Cash and Bank are to be treated as identical.

Exercise LII.

Work out the following set of transactions in two sets of account books, like Exercise planned on pages 388, 389, so that accounts due from clients and not yet paid do not appear in the final balance sheet.

J. Hamilton starts on Jan. 1, 1895, as a Solicitor with £1,000 cash, and the transactions following occurred during the year: Received cash on behalf of clients £230. My "costs" on same £25. Paid Cash on behalf of clients £50. Received from clients on account £150. Sundry office expenses paid £112. Sundry clients' accounts amount to £127, and are settled by cash £120 and allowances £7. Sundry small sums received from strangers for professional assistance amounting in all to £18. Paid cash to sundry clients £224, Less my costs £38. Costs, &c., debited to clients exclusive of amounts given above £1,675. Sundry liabilities due on account of office £70. Sundry liabilities due on account of clients, &c. £20.

Exercise LIII.

From the particulars given below make a statement in tabular form like that on page 392, showing the profits of the business for each year, reckoned on the basis of cash receipts, compared with the profits for each year on the basis of services rendered.

Accounts rendered to clients for professional services as follows: *1890* £500, *1891* £1,000, *1892* £1,500, *1893* £1,000, *1894* £500.

Cash receipts each year are (¼ of business done during year + ¾ *Gross* D. R. @ beginning of year) less 10 % for sundry allowances.

Other business expenses come to £180 a year + 25 % on amount of business done. Reserve for Future Bad Debts to be kept at 20 % on the Gross Debts Receivable.

(Work to nearest pound only.)

Exercise LIV.

Work out set of transactions given in Exercise LII. in ordinary form by Journal and Ledger, allowing 10 % from gross Debts Receivable as a reserve for Allowances and Bad Debts.

Exercise LV.

From the following information draw up a Profit and Loss Account and Balance Sheet as at Dec. 31, 1895, after journalising and posting any entries which seem to you from an examination of the accounts to have been omitted.

Dr. MACHINERY ACCOUNT. *Cr.*

1894		1894	
Jan. 1. To Balance	... £5,000	Dec. 31. By Depreciation at 10 % per annum	£500
		,, ,, Balance ...	4,500
	£5,000		£5,000
1895		1895	
Jan. 1. To Balance	... £4,500		

Dr. TRADE EXPENSES ACCOUNT. *Cr.*

1895				1895		
Mar. 25.	To Quarter's Rent due	£100				
June 24.	,, ditto	100				
Sep. 29.	,, ditto	100				
Dec. 31.	,, Carriage, &c., for year ...	800				
,,	,, Insurance ...	175				
,,	,, Rates & Taxes	125				
,,	,, Office Expenses	60				

Dr. CAPITAL ACCOUNT. *Cr.*

1894			1894		
June 1.	To Bank ...	£500	Jan. 1.	By Balance ...	£15,000
Dec. 31.	,, Balance ...	16,000	Dec. 31.	,, Interest at 5%	750
			,,	,, Net Profit ...	750
		£16,500			£16,500
1895			1895		
June 1.	To Bank... ...	£500	Jan. 1.	By Balance ...	£16,000

The following particulars are also necessary:—On Dec. 31, 1894, the Gross Profit was found to be £10,900; the Stock in Trade £8,500; Balance of Cash £55, and Bank £900; Bills Receivable £6,200; Bills Payable £6,000; Freehold Property £5,000; Sundry Creditors £3,528; Sundry Debtors £2,263; Discounts allowed by me during year £265; Discounts allowed to me £150; Rebate on Bills Payable retired £10; Bad Debts made during year £145; Created a Bad Debts Reserve Account £130; Wages £6,800.

Exercise LVI.

Assuming that Alfred Barratt wishes a separate account made out for all *profits* (distinct from losses), the balance of which account is to be closed into P. and L., make out such an account from the following statement:—

Account Sales of Consignment A has just been received, showing that the consignment has realised net £310. No Account Sales of Consignment B yet received. Account Sales has been received of Joint Adventure with Isaac Thring, showing that the net proceeds are £815: the balance of Joint

Adventure is to be divided equally. Commission on £1,200 Sales effected by A.B. for Maskelyne, Cooke and Co., at 2½ per cent. Rebate allowed on Bills Payable retired £14. Bad Debt unexpectedly recovered £25. Rent received from tenants of Cottage Property £60. Repairs to Cottage Property £8. Discount charged by Bank for sundry Bills discounted with them £78. Goods, Department C, valued at £1,500 in books, were insured for £1,800, and have been totally destroyed by fire.

Other particulars necessary for the compilation of this account will be found in the following extract from the Trial Balance of Alfred Barratt on March 31, 1895:—

	£	£
Consignment A	275	
,, B	164	
General Goods Account	1,680	1,690
Goods Department A	124	25
,, ,, B	49	11
Joint Adventure with Thring	735	
Trade Expenses	189	
Wages Department A	65	
,, ,, B	90	

A.B. has no general goods on hand (see above). Goods on hand: Department A £200, Department B £140, Department C nil.

Exercise LVII.

(i.) Make out an account of "Losses" (the balance of which is to be transferred to P. and L.) from the following extract from an imaginary Trial Balance, *bearing in mind the Accountant's notes thereon*, made by him after a careful examination of A.B.'s books; (ii.) make the necessary Journal entries to conform the Books with the facts.

(*a*) *Goods* Account should have been debited with part of Wages Account viz. Wages of Workmen employed thereon, £30.

(*b*) *Trade Expenses.* This item does not appear to include £35 due for sundry outstanding charges, nor any sum on account of Repairs, &c., now in course of execution and estimated to amount to £13. It includes, however, an amount of £24 for liabilities incurred the previous year and paid in January.

(*c*) I consider Bad Debts Reserve Fund, which now stands at £55, ought to be at least 10 per cent. of Gross Debts Receivable, the book value of which is £970.

(*d*) I find commission amounting to £6, of which no account was taken, was due to sundry agents on Dec. 31.

(*e*) This does not include interest on loan now due, £10.

(*f*) Property is in poor condition, and depreciation, which has been reckoned at 3 per cent., ought to be at least 5 per cent.

(*g*) *Rent*, &c., does not include £27 now due.

(*h*) *Wages*, &c., £12 due to clerks on Dec. 31 not included.

(*i*) *Carriages*, &c. This should be debited to Goods Account.

(*k*) Value of Stock appears to me to be estimated on an unsound basis. £900 would be a truer estimate.

EXTRACT FROM TRIAL BALANCE.

	Dr.			*Cr.*		
	£	*s.*	*d.*	£	*s.*	*d.*
Goods Account (*a*)	1,764	13	7	1,644	17	4
Trade Expenses Account (*b*)	157	16	5			
Bad Debts Account (*c*)	50	5	6	20	5	6
Discounts Account	79	18	3	54	3	2
Commission Account (*d*)	10	10	0			
Insurance Account	6	12	6			
Interest Account (*e*)	55	0	0			
Depreciation Account (*f*)	28	10	0			
Rent, Rates, &c., Account (*g*)	125	10	0			
Wages and Salaries Account (*h*) ...	65	0	0			
Fires and Lights Account	27	9	6			
Travelling Expenses Account	4	17	4			
Carriages and Freights Account (*i*) ...	19	6	0			
Value of Stock £1,000 (*k*)						

See Accountant's notes on previous page.

Exercise LVIII.

(Final Chartered Accountants' Examination Paper for December, 1894.)

Prepare Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. W. L. and Co.'s business for the year ended September 30th, 1894, from the following particulars:—

TRIAL BALANCE.

	Dr.	*Cr.*
	£	£
Iron and Steel	9,950	
Goods and Materials	800	
Coal and Coke	900	
Carriage and Cartage	880	
Wages	3,760	

	Dr.	Cr.
	£	£
Salaries	350	
Discounts Account...	...	20
Bad Debts Account	...	100
Rent, Rates, and Insurance	280	
Goods Sales Account	...	19,000
Cash in hand	100	
Bank Overdraft	...	1,200
Bags and Packing	300	...
Repairs and Replacements :—		
Buildings	200	...
Machinery, &c.	250	...
Sundry Creditors	...	1,050
,, Debtors	4,000	...
Mortgage, Loan on	...	3,000
W. L. Capital	...	5,000
B. L. Capital	...	3,000
G. R. Capital	...	2,000
Leasehold Premises	5,000	
Stock in Trade	3,500	
Plant, Machinery, &c.	2,500	
Loose Tools, &c.	1,000	
Trade Expenses	600	
	34,370	34,370

Provide £150 for loss on debts and £200 for discounts.
Credit each partner with one third share of profits.
The Stock on September 30th, 1894, was £3,600.

Exercise LIX.

Make a Trial Closing Sheet (see p. 120) from the Trial Balance given on p. 398. Hence draw up a Profit and Loss Account and Balance Sheet.

LESSON XVII

CAPITALIST ACCOUNTS

THE accounts of Profit and Loss examined in the last lesson have sooner or later to be taken to the accounts of the Proprietor of the business, that is of the Capitalist.

We have now therefore to examine these accounts, which are usually called Capital or Stock accounts, and to notice the growth or decline of the proprietary capital of a business as exhibited therein.

Accounts of this nature are usually kept in a separate book called a **Private Ledger.** The Private Ledger contains a complete system of accounts which balances and **Proves** just as the system of accounts in the Business Ledger does.

The simplest idea of the Private Ledger may be obtained from regarding the private and the public ledger as containing the accounts of two distinct individuals, and as it often happens that a man trades under an assumed name, I will illustrate the use of the Private Ledger by imagining such a case.

(i.) "*Trade Ledger Account*" *in Private Ledger.*

Alfred Burton is trading under the title of Curtis & Co. Then if he has no Assets and Liabilities of any kind except his interest in this business, his *private* balance sheet would be shown thus :

Liabilities.	BALANCE SHEET.	*Assets.*
Capital £5,000	Curtis & Co. £5,000	

But on the very probable assumption that he has some private Assets and Liabilities that have no connection with the business, his private balance sheet would appear somewhat as follows · ·

Liabilities.	B. S.	*Assets.*
Williams £50	Houses £2,000	
Net Capital 8,050	Jackson 100	
	Cash 1,000	
	Curtis & Co. 5,000	
8,100	8,100	

A.B.'s PRIVATE LEDGER.

Dr. HOUSES. *Cr.*	*Dr.* CASH. *Cr.*	*Dr.* JACKSON. *Cr.*
£2,000	£1000	£100

Dr. WILLIAMS. *Cr.*	*Dr.* CURTIS & CO. *Cr.*	*Dr.* CAPITAL. *Cr.*
£50	£5,000	£8,050

N.B.–This a/ct is usually headed "**Trade Ledger a/c.**"

He may, however, wish to split up the account headed Curtis & Co. into its component parts. From information given by Curtis & Co.'s Trade books—accessible of course to him—he knows exactly what the amount consists of. Hence he has only to make certain transfer entries, as indicated below, either with or without the help of his Private Journal.

A.B.'s PRIVATE LEDGER.

Dr. CURTIS & Co. (Trade Ledger Account.) *Cr.*

To Balance ...	... £5,000	Transfer to D. R. a/c	... £5,000
Transfer to D. P. a/c ...	6,000	,, ,, Bank a/c	... 3,000
		,, ,, Goods a/c	... 3,000
	11,000		11,000

This, of course, closes Trade Ledger account—or, as we have chosen to call it, Curtis & Co.'s account—and necessitates the opening of four new accounts in the Private Ledger thus:

Dr. CURTIS & Co. D.R. *Cr.*		*Dr.* CURTIS & Co. D.P. *Cr.*	
£5,000			£6,000

Dr. CURTIS & Co. CASH. *Cr.*		*Dr.* CURTIS & Co. GOODS. *Cr.*	
£3,000		£3,000	

It is clear that the above four accounts collectively express the same fact as the one account "Curtis & Co.," and that they

have the additional merit of giving certain information of their own.

(Here work out Exercise LX.)

(ii.) "*Private Ledger Account*" *in Trade Ledger.*

Suppose, now, A.B. wishes all Trade capital and profit or loss transactions passed through his Private Ledger. He issues instructions to his clerks accordingly, and these instructions would probably take some such form as this: All Gains and Losses (analysed and summarised as usual in the books of original entry), also all drawings or private expenses of A.B., instead of being journalised to P.and L. or Capital account are to be journalised to **Private Ledger Account.**

The Private Ledger account in the trade books of Messrs. Curtis & Co. is accordingly a jumble of Capital and P.and L., in fact a "General Proprietary account," without any very clear or definite meaning. This is just what A.B. wants.

TRADE BOOKS.

Dr. PRIVATE LEDGER ACCOUNT. *Cr.*

To Cash	£500	By Balance...	£5,000
,, Sundries	100	,, Goods	2,000
,, Cash	400	,, Sundries	150
,, Sundries	120		
,, ,, ...	200		
,, Balance	5,830		
	£7,150		£7,150
		By Balance	5,830

The first thing that is clear from the above account is that Curtis & Co. (Trade Ledger) acknowledge an increased liability on their part of £830 towards A.B. (Private Ledger).

To reconcile his own private books with the new condition of things thus revealed, A.B. must of course debit Curtis & Co., but this debit involves an increase in his own general resources. It belongs to him. He must therefore credit his private Capital account in P.and L.

And yet if the entry is made in his books in the simple form *Curtis & Co. Dr. To Capital account Cr.*, it will by no means answer his purpose. He proceeds therefore to analyse both the debit and the credit.

(iii.) *Analysis of Trade Gains and Losses in Private Ledger.* The entries in Curtis's Private Ledger account on being analysed by the means at A.B.'s command are found to consist of £2,000 gross profit on Goods + £150 gain on discounts allowed to him, less £700 Trade Expenses, £100 Bad Debts, Private Drawings £400, and Discounts allowed by him £120.

A.B.'s first Journal entry in his Private Ledger would therefore be—

Curtis & Co., *Dr.*	£830	
P.and L., *Dr.*	920	
Capital, *Dr.*	400	
To P.and L., *Cr.*		£2,150

and these being posted, the balance of P.and L. account could be transferred to Capital by a second Journal entry.

P.and L., *Dr.*	£1,230	
To Capital, *Cr.*		£1,230

(iv.) *Analysis of Trade Assets and Liabilities in Private Ledger.*

A.B. now wishes to know how it comes to pass that he is justified in debiting Curtis & Co. (his own Trade Ledger, remember) with this additional £830. His private ledger already shows Curtis & Co. as his debtors to the extent of £11,000 *minus* £6,000. He wishes now (if this £830 is really and truly value IN) to see exactly what it consists of, just as he did with the original £5,000. How is he to set to work about it?

He obtains from his carefully analysed trade books the following particulars :—

(*a*) **D. R. account** (see Lesson XIII., page 288).

(i.) Additional Debits to Customers £6,000
(ii.) ,, Credits (for Cash, &c.) ... 5,500

(*b*) **D. P. account.**

(i.) Additional Credits for Purchases, &c. ... £6,700
(ii.) ,, Debits for Payments, &c. ... 6,400

(*c*) **Goods account.**

(i.) Yearly Purchases, &c. £6,500
(ii.) ,, Sales 7,000
(iii.) Present Value of Stock 4,500

(*d*) **Cash.**

(i.) Total Receipts £6,280
(ii.) ,, Payments 7,150

Embodying the above in one Private Journal entry—

D.R. *Dr.*	£6,000	D.R. *Cr.*	£5,500
D.P. *Dr.*	6,400	D.P. *Cr.*	6,700
Goods, *Dr.*	6,500	Goods, *Cr.*	7,000
,, (for Gross Profit)...	2,000	Cash, *Cr.*	7,150
Cash, *Dr.*	6,280	Curtis and Co. *Cr.* ...	830

A.B. can now distribute the various amounts, and having posted his Private Ledger, it will appear thus :

Dr. HOUSES. *Cr.*		*Dr.* CASH. *Cr.*		*Dr.* JACKSON. *Cr.*	
£2,000		£1,000		£100	

Dr. WILLIAMS. *Cr.*	
	£
	50

Dr. CURTIS & Co. *Cr.*	
£	£
5,000	5,000
6,000	3,000
	3,000
11,000	11,000
830	830

Dr. CAPITAL. *Cr.*	
£	£
400	8,050
	1,230

Dr. C. & Co. D. R. *Cr.*	
£	£
5,000	5,500
6,000	

Dr. C. & Co. D. P. *Cr.*	
£	£
6,400	6,000
	6,700

Dr. C. & Co. CASH. *Cr.*	
£	£
3,000	7,150
6,280	

Dr. C. & Co. GOODS. *Cr.*	
£	£
3,000	7,000
6,500	
2,000	

Dr. C. & Co. P.&L. *Cr.*	
£	£
920	2,000
1,230	150

Whence he obtains the following:—

Liabilities. **PRIVATE BALANCE SHEET.** *Assets.*

	£		£	£
Williams & Co. ...	50	Curtis & Co. D. R.	5,500	
Net Capital	8,880	,, Goods	4,500	
		,, Cash	2,130	
			12,130	
		Less D. P.	6,300	
				5,830
		Cash		1,000
		Houses		2,000
		Jackson		100
	£8,930			£8,930

Thus he has proved his own private books and at the same time agreed them with his trade books.

(Here work out Exercise LXI.)

It must not be supposed, however, that the method just explained is the usual course adopted in practical work. (It is the best way sometimes to explain things backwards.) In practical work, monthly or quarterly Journal entries are made in the Private Ledger from the totals of the analytical columns in the trade books.

Thus the balance in the Private Ledger is struck first, and the balance in the Trade Ledger (which consists mainly of an inventory of Debts Payable and Debts Receivable) must be made to agree therewith.

Purely private transactions need no illustration. They are of course passed through the private account books without the knowledge or intervention of the office clerks.

Suppose I wish to remove any particular account from the cognisance of my clerks, I have only to transfer the balance by means of an entry in the Trade Journal. If at present a debit balance, the entry will be—

Private Ledger, *Dr.*
To Particular account, *Cr.*

and the balance will henceforth, so far as the business is concerned, be merged in the balance of Private Ledger account.

It is often found desirable to transfer all accounts except personal ones to the Private Ledger. The work of balancing and closing from this latter is much simpler than that of proving the trade books, as there are fewer accounts to close.

(Here work out Exercise LXII.)

INTERMEDIATE CHECKS.

It is almost hopeless to attempt to balance and prove the books of a large house of business without some intermediate

check on accuracy. The following scheme will almost explain itself :—

INTERMEDIATE CHECK.

Chronological Record.		Classified Record.					
		Debits.			Credits.		
Books of Original Entry.	Total.	Sundry Debtors: Sales Ledger.	Sundry Creditors: Purchases Ledger.	Private Ledger Account.	Sundry Debtors: Sales Ledger.	Sundry Creditors: Purchases Ledger.	Private Ledger Account.
	£	£	£	£	£	£	£
Day Book ...	2,000	2,000					2,000
Invoice Book ...	950			950		950	
Cash Book IN...	1,900			1,900	1,750		150
Cash Book OUT	1,600		1,000	600			1,600
B.P. Book ...	200		200				200
B.R. Book ...	300			300	300		
Journal	60	10	20	30	15	30	15
	7,010	2,010	1,220	3,780	2,065	980	3,965
				1,220			980
				2,010			2,065
				7,010			7,010

Assuming the Trade Balance Sheet at the beginning of the period to have been :—

Liabilities.	January 1.	*Assets.*
Creditors	£600	Debtors £1,000
Private Ledger a/c	400	
	£1,000	£1,000

The above abstract enables us very speedily to obtain a statement for the end of the period, thus :

Dr. SUNDRY DEBTORS. *Cr.*

To Balance	£1,000	By Cash, Discounts, and Credits	£2,065
,, Sales, &c.	2,010	,, Balance	945
	£3,010		£3,010
To Balance	945		

Dr. SUNDRY CREDITORS. *Cr.*

To Debits	£1,220	By Balance...	£600
,, Balance	360	,, Purchases, &c.... ...	980
	£1,580		£1,580
		By Balance	360

Dr. PRIVATE LEDGER. *Cr.*

To Sundries	£3,780	By Balance...	£400
,, Balance...	585	,, Sundries	3,965
	£4,365		£4,365
		By Balance	585

Liabilities. FINAL BALANCE SHEET. *Assets.*

Sundry Creditors	£360	Sundry Debtors	£945
Private Ledger	585		
	£945		£945

(Here work out Exercise LXIII.)

PARTNERSHIPS.

In considering the question of partnerships there are five points that we shall notice: Concurrent Capital Accounts, Interest on Capital, Division of Profits and Losses, Admission of a Partner, Dissolution of Partnership.

(*a*) *Concurrent Capital Accounts.*—It may be desired to show not only the growth and decline of each partner's capital, but also at the same time the growth and decline of the Joint Capital. The usual method is to open a Joint Stock or Joint Capital at starting, only to close it again by transferring therefrom each partner's share to his own Separate Capital Account, thus:

Dr.	JOINT STOCK.		*Cr.*
A.B.	£6,000	By Cash	£10,000
C.D.	4,000		
	10,000		10,000

A.B.'s and C.D.'s accounts then remain open.

Dr.	A.B.	*Cr.*	*Dr.*	C.D.	*Cr.*
		£6,000			£4,000

To have both Joint and the Separate Capital accounts open and running at the same time, however desirable, would be a violation of the principles of Double Entry. The difficulty can be best met by the adoption of a concurrent or combined capital account, of which the following example is self-explanatory:—

Dr. CAPITAL ACCOUNT. *Cr.*

	A.	B.	Joint.		A.	B.	Joint.
	£	£	£		£	£	£
Drawings ...	1,000	500	1,500	By Balance ...	6,000	4,000	10,000
Balance ...	6,200	4,300	10,500	,, Net Profit.	1,200	800	2,000
	7,200	4,800	12,000		7,200	4,800	12,000
				By Balance ...	6,200	4,300	10,500

(Here work out Exercise LXIV. p. 429.)

(*b*) *Interest on Capital and Drawings.*—When the profits and losses of a business have to be divided in proportion to the capital, there is no strict necessity for calculating interest on Capital and drawings. The advantage of doing so is that the reward of the capitalist is thus assumed to be split up into its component parts: Interest, the reward of Capital + Profit, the reward of Labour. The disadvantages are (i.) the very slight amount of trouble, (ii.) the fact that the *interest-bearing* value of Capital *per se* is not definitely ascertainable, and seems to have a tendency at the present time (1895) to grow less year by year, (iii.) interest on Capital is not allowed by the Income Tax Commissioners, and in making Income Tax returns, must be added, if it has been previously taken off.

If, on the other hand, the profits of the business are divided not in proportion to capital but on some other plan, it is *necessary* to reckon interest in order to arrive at a just result.

It may perhaps assist beginners, who sometimes stumble over the rather elementary question of how to journalise interest on Capital and drawings, to notice that the interest always follows

the sum it is calculated upon. If the principal is a debit, the interest is a debit and *vice versa*. The account below contains a *manifestly erroneous entry!*

Dr.	ANY ACCOUNT.	*Cr.*
To Interest thereon ... £50	By Balance £1,000	

The entries should of course be

either

Dr.	*Cr.*
	£1,000
	50

or

Dr.	*Cr*
£1,000	
50	

Now Capital account has almost always a *credit* balance. Hence Capital account will be *credited* with the Interest thereon.

Consequently the Journal entries will be (i.) for Interest on Capital

P. and L. Dr. To Capital Cr.

and (ii.) for Interest on Drawings

Capital (or Drawing Account) Dr. To P. and L. Cr.

Interest is usually calculated at the rate of 5 per cent. per annum. It is useful to remember that this is a penny in the £ per month. All calculations being made *to the nearest penny*, there is very little difficulty in arriving at the amounts.

When the drawings are frequent, an inner column is sometimes used for Interest, on the principle of the detail columns explained in Lesson IX.

Dr. CAPITAL ACCOUNT. *Cr.*

	Interest.			Principal.				Interest.			Principal.		
	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Drawings—													
June 30	2	10	0	100	0	0	By Balance,						
Sept. 30	1	5	0	100	0	0	Jan. 1...	50	0	0	1,000	0	0
Oct. 31	0	16	8	100	0	0	,, Net Profit				350	0	0
Nov. 30	0	4	2	50	0	0	,, Interest...				50	0	0
Interest ...				4	15	10							
Balance ...				1,045	4	2							
				1,400	0	0					1,400	0	0
							By Balance .				1,045	4	2

The remarks made on Interest in Lesson XIII. (p. 280) should be remembered in this connection.

(Here work out Exercise LXV. p. 430.)

(*c*) *Division of Profits and Losses.*

The periodical division of profits or losses may be—

(i.) *Equal*, in which case the net gain or loss has simply to be divided by the number of partners.

(ii.) *In a fixed ratio*, determined on at the time of partnership. Say $\frac{1}{4}$ to A., $\frac{1}{3}$ to B., and $\frac{5}{12}$ to C. Reducing these fractions to their lowest common denominator (12), we soon see that the net gain or loss must be divided into 12 equal shares, of which A. takes 3, B. takes 4, and C. takes 5.

(iii.) *Pro rata* according to their respective Capitals. This is only another form of (ii.). If A. and B. have respective capitals 275 and 375, A. has to take 275 shares of the profit and B. 375, that is to say, the whole net gain (or loss) must be

divided into 650 shares, of which B. takes 275 and A. 375. In other words,

$$\text{A. takes } \frac{\text{His own Capital}}{\text{Total Capital}} = \frac{375}{650} = \frac{11}{26}\text{ths.}$$

$$\text{B. takes } \frac{\text{His own Capital}}{\text{Total Capital}} = \frac{375}{650} = \frac{15}{26}\text{ths.}$$

When there have been any considerable additions or withdrawals of Capital during the period in question the element of time forms an important feature of the case, and the ratio on which the calculation is based is formed by multiplying the number of months (or days if necessary) during which each differing amount of capital held by each partner remained in the business, by the aforesaid amount of Capital.

Suppose, for example, A. has £275 on Jan. 1. He adds £100 on July 1 and draws out £25 each quarter. Then he has £275 in the business for the first three months ($275 \times 3 = 825$). He has 250 for the second three months ($250 \times 3 = 750$). He has 325 for the third three months ($325 \times 3 = 975$) and 300 for the last three months ($300 \times 3 = 900$), [$825 + 750 + 975 + 900 = 3450$].

Similarly, it may appear that B. had 375 in the business for the first two months, 300 for the next four months, 400 for the next five months and 350 for the last month [$750 + 1200 + 2000 + 350 = 4300$].

The ratio in which to divide net profits is therefore

$$\begin{aligned} & 3450 : 4300 \\ = \quad & 345 : 430 \\ = \quad & 69 : 86 \end{aligned}$$

Therefore A. takes $\frac{69}{155}$ths and B. $\frac{86}{155}$ths.

(Here work out Exercise LXVI. p. 430.)

The question of distribution of gains and losses is often in practical life a much more complicated matter than would

appear from the simple illustrations given above. It is sometimes advisable, pending a settlement, to carry the amount of net profit to a suspense account called **Appropriation account**, whence it can be transferred to its rightful owners as soon as matters are finally settled. We shall now consider two of the circumstances that occasionally introduce complexity into this question.

(*d*) *Admission of a partner.*

On the admission of a new partner to a business, a stipulation is sometimes made that the members of the old firm shall **guarantee** to the incoming partner the correctness of the statement of Assets and Liabilities on the faith of which he enters into partnership.

If under this arrangement any of the Assets appear to have been over-estimated—if, for instance, any of the debtors of the old firm should become insolvent, the consequent loss would be journalised—

Members of old firm *Dr.*

To Defaulting Debtors *Cr.*

for amount of loss suffered.

If, on the other hand, it should turn out that any of the liabilities have been over-stated, the balance must be carried to the credit of the members of the old firm.

An arrangement is sometimes made under which one of the partners secures to himself a **preferential claim** out of the profits, either for managership or for any other reason. This amount must of course be placed to his credit before the ordinary division of profits is made.

Various arrangements respecting **Goodwill** may be made. (i.) The incoming partner may be asked to pay a certain sum in cash to the present partners which they may take for their private use. This transaction would probably not appear in

the business books of the firm at all. (ii.) The incoming partner may pay cash to the present partners, which they place in the business to the credit of their respective Capital accounts—

Cash Dr. To A.B. Capital account.

(iii.) An agreement may be made that a certain estimated amount be placed to the credit of the old partners' capital accounts without any cash passing between the parties.

This involves the creation of a new Asset in the books, and the entry is—

Goodwill *Dr.*
To A.B. Capital account.
To C.D. do.

A.B. and C.D. (the old partners) get the benefit of this arrangement on the *pro rata* division of profits.

(Here work out Exercise LXVII. p. 430.)

(*e*) *Dissolution of partnership.*

When a partnership is dissolved there is frequently a loss on the realisation of Assets. [Somehow or other Assets seldom do realise their book value.] An account is opened called **Realisation** or Liquidation account. This account is debited with the book value of the Assets plus expenses of realisation and credited with the Cash proceeds. The balance shows the net gain or loss on realisation, and must be transferred to the Capital accounts of the respective partners in equal shares if profits and losses are to be borne equally, or *pro rata* if otherwise.

This amount having been transferred, the balance of each partner's Capital account shows clearly either to what amount he is entitled (out of the wreck), or (**as is far more probable**) how much he must pay up out of his own private resources towards the settlement.

Dr. EXAMPLE OF REALISATION ACCOUNT. *Cr.*

Book value of Assets ...	£5,000	Cash at Banker's	£1,000
Expenses	500	Cash for Book Debts ...	500
		Sales of Stock	1,000
		Plant, &c.	500
		Loss on Realisation ...	2,500
	£5,500		£5,500
Balance brot. on	2,500	By A. } *pro rata* as per } ...	1,000
		,, B. } agreement ...	1,000
		,, C. } ...	500
	£2,500		£2,500

The latter section of this account may be regarded as an "Appropriation Account" and might have been so headed if desired.

Now, suppose that at the date of dissolution the respective Capital accounts of the partners stood thus: A. £750, B. £1,000, C. £800. Then A. has to pay £250 cash, B. just escapes by the skin of his teeth, and C. has to receive £300, as shown below.

Dr. A.	*Cr.*	*Dr.* B.	*Cr.*	*Dr.* C.	*Cr.*
£1,000	£750 250	£1,000	£1,000	£500 300	£800
1,000	1,000			800	800
250					300

The whole of the loss on realisation of assets having been dealt with, there is now enough cash to meet all liabilities.

This will be evident if we consider that the book value of the Capital is always the difference between the book values of Liabilities and Assets. Assets having been now proved to be worth £2,500 less than was supposed, it follows that Capital is really £2,500 less than was supposed. The amount of liabilities is not in any way affected by this discovery.

(i.) Assumed value of Assets		£5,000
Less Assumed Capital		2,550
Liabilities		£2,450
(ii.) Actual Realisation	3,000	
Expenses	500	£2,500
Less Actual Joint Capital		50
Liabilities		£2,450

As all Assets now consist of cash, there is enough cash to meet all the outside liabilities with £50 to spare. This £50 belongs to C., who also asks A. for the £250 due from him—which demand A is bound to meet if he has private resources enabling him to do so.

(Here work out Exercise LXVIII. p. 431.)

It must be remembered that each partner in an ordinary business is liable to the full amount of his private resources for all the liabilities of the firm. If therefore there is a firm of three partners, one of whom has ample private means whilst the other two have little or none, the wealthy one bears a considerable responsibility on his own shoulders as long as he continues a member of the firm. Should the business become insolvent, the weaker partners would probably become insolvent too, and the other would have to pay not only his own proper share of the loss, as shown above, but also any deficiencies caused by the insolvency of his partners.

This however is not by any means the case with the partners (shareholders) in a Limited Liability Company. But the question of limited liability companies is too long for explanation here. We must defer that to our next lesson.

EXERCISES ON LESSON XVII.

Exercise LX.

From the following list of Assets and Liabilities construct a Private Balance Sheet which shall contain the balance of Trade Assets and Liabilities in one sum.

On January 31, 1895, O. C. Masterman & Co. owed on Open Accounts, per the Trade Ledger, Long £275; Gideon £5,126; William £920 13*s.* 4*d.*, and per the Private Ledger, P. Jenner £5,000. They had granted acceptances per Trade Ledger £3,514 12*s.* 8*d.*; per Private Ledger £8,443. O. C. Masterman's Capital per Private Ledger was £4,650 2*s.*, and A. D. Rickard's Capital the same. They had Cash in Bank per Trade Ledger £11,224 6*s.* 8*d.*, per Private Ledger £3,506 2*s.* 8*d.*; Cash in hand per Trade Ledger £80 6*s.* 8*d.*; Goodwill debited per Private Ledger at £5,000; Debts due to them per Trade Ledger £482 8*s.* 8*d.*; per Private Ledger £274 4*s.*; Goods on hand per Trade Ledger £12,012 1*s.* 4*d.*

Exercise LXI.

From the particulars given below construct a Balance Sheet as it would appear in James Galbraith's Private Ledger.

James Galbraith, trading under the title of Lopez Bros., finds from his Adjustment a/c in his Trade Books that during the year he has spent £230 on Private Expenses, and £310 on Trade Expenses. He has allowed sundry people discounts amounting to £135, and sundry people have allowed him £80 in the same manner. He has also suffered a Bad Debt of £50, but, on the other hand, has unexpectedly recovered a Bad Debt of the amount of £250 which he had previously written off. He has also made £700 Gross Profit during the year.

You are furnished with the following further particulars:—

(i.) D. R. a/ct	(*a*) Additional debits to customers ...	...	£4,500
	(*b*) ,, credits ,, ,, (Cash, &c.)		4,450
(ii.) D. P. a/ct	(*a*) Additional credits for Purchases, &c. ...		3,200
	(*b*) ,, debits (Cash, &c., paid) ..		2,980

(iii.) Goods a/ct	(*a*) Yearly purchases	£3,800
	(*b*) ,, Sales	4,000
	(*c*) Present Value of Stock	2,300
(iv.) Cash a/ct	(*a*) Total Receipts	2,495
	(*b*) Total Payments	2,520

At the *beginning* of the period J. G. had the following balances in his *Private* Ledger:—Lopez Bros. D. R. £4,000, Lopez Bros. D. P. £5,500, Lopez Bros. Cash £2,700, Lopez Bros. Goods £1,800; and Cash £3,000, with a balance on the *Cr.* side of Capital of £6,000.

Exercise LXII.

1895		Cash	£1,200
		Goods	3,500
		Knight	800
Jan. 1.	Assets	Keats	125
		B.R. (Kingsley, Jan. 4)	500
		,, (Kingston, March 10)	900
		,, (Kirby, April 7)	50
		Keble	1,200
,, ,,	Liabilities	Kershaw	120
		B.P. (Knowles, Jan. 19)	1,190
,, ,,	Bought Goods of Knox & Co., £2,500, and gave them my acceptance at three months for that amount.		
,, 4.	Sold Goods to Knight & Co. £1,700, and drew on them at two months for the whole amount now due by them to me.		
,, ,,	Kingsley's acceptance paid.		
,, ,,	Discounted Knight's acceptance (due March 7), discount charged		24
,, 7.	Discounted Kirby's acceptance (due April 7), discount charged		1
,, 10.	Discounted Kingston's acceptance (due Mar. 10), discount charged		7
,, 19.	Paid Knowles Cash for my acceptance		1,190
,, 31.	T. E. £35. P. E. £50. V. S. £4,500.		

Assuming all accounts except B.R., B.P., and Personal accounts to be transferred to the Private Ledger, give Trade Journal with transfer entries at beginning and end, together with Trade Balance Sheet and Private Balance Sheet on January 31, 1895.

Exercise LXIII.

From the particulars given below make out an "Intermediate Check" similar to the one on page 416. Hence draw up accounts as in the Trade

Ledger for "Sundry Debtors," "Sundry Creditors," "Private Ledger," and also a Balance Sheet as on March 31, 1895.

BALANCE SHEET.

Liabilities.	March 1, 1895.			*Assets.*			
	£	*s.*	*d.*		£	*s.*	*d.*
Sundry Creditors ...	950	0	0	Sundry Debtors ...	1,695	1	9
Private Ledger Account	745	1	9				
	1,695	1	9		1,695	1	9

The following are totals for March :—

Credit Sales £2,523 17*s.* 9*d.*; Credit Purchases £1,191 9*s.* 2*d.*; Receipts from Sundry Debtors £1,969 11*s.* 10*d.*; Allowances to Sundry Debtors £130 8*s.* 2*d.*; Received for Cash Sales £250 0*s.* 6*d.*; Paid to Sundry Creditors £1,102 14*s.* 6*d.*; Allowances to me by Sundry Creditors £97 5*s.* 6*d.*; Partners' Drawings £450; Paid for Cash Purchases £169 11*s.* 10*d.*; Bills Payable granted £500; Bills Receivable held £545 10*s.*

In addition to the above, the Journal contained a few miscellaneous entries, viz.:—

Debits to Sundry Creditors £30 9*s.* 8*d.*; Credits to Sundry Debtors £14; Credits to Sundry Creditors £65; Debits to Private Ledger account £65; Credits to Private Ledger account £16 9*s.* 8*d.*

Exercise LXIV.

You are required to make out from the following particulars a Capital account with four columns, one for each of the partners and one for Joint Capital, and balance it at the end of each half year.

S. R. Crockett's Capital at the beginning of the year	£1,600
B. Heldmann's ,, ,, ,, ,, ,, ,,	1,000
C. Baring-Gould's ,, ,, ,, ,, ,, ,,	1,000
S. R. C. draws out on the first of each month ...	20
B. H. ,, ,, each quarter day	75
C. B. G. ,, ,, ,, ,, ...	175
June 30, Net Profit for the half year	390
Dec. 31, ,, ,, ,, ,, ...	423
C. B. G. is to be credited each quarter for his services as Manager	125

(Profits are to be equally divided.)

Exercise LXV.

Assuming that H. O'Hagan and B. P. Rowe were in partnership sharing profits (or losses) in the proportions of $\frac{2}{3}$ths and $\frac{1}{3}$ths respectively, and that H. O'Hagan's Capital account on January 1, 1895, showed a credit balance of £7,563 1*s.* 8*d.*, and B. P. Rowe's on the same date a debit balance of £1 3*s.* 4*d.*, compile from the following particulars the Capital accounts of H. O'Hagan and B. P. Rowe for 1895, using Interest columns as on page 421.

During 1895 H. O'Hagan drew out £50 on the last day of every month except on July 31, when he drew £150, and on December 31, when he drew £100. On November 30, he put £250 more capital into the business.

During the same period B. P. Rowe drew out £36 on the last day of every month except on December 31, when he drew £50. On January 16 he put £5,000 more Capital into the business.

The partners' Capital accounts are to be credited with Interest at the rate of 5 % per annum on the balance of Capital and on all advances, and to be debited at the same rate on all drawings and on any deficiency of Capital account.

On December 31, 1895, Profit and Loss account for the year showed a debit balance of £3 17*s.* 7*d.*, after it had been debited and credited respectively with interest on Capital and drawings, &c.

Exercise LXVI.

(College of Preceptors, Midsummer, 1892.)

On Jan. 1, 1891, A. Bell with £700 and C. Dell with £500 join in partnership; on April 1 A. Bell advances £100 and C. Dell withdraws £50; on July 1 A. Bell withdraws £50 and C. Dell advances £150; on Dec. 31 their Profit and Loss account shows a net gain of £772 10*s.* Divide this fairly between them.

Exercise LXVII.

On April 1, 1895, the affairs of Herne Stoddart were as follows: Cash in Bank £1,026 5*s.* 2*d.*; Freehold Property valued at £6,000; Stock £737 19*s.* 1*d.*; B.R. £536; Debtors on open account £1,858 1*s.* 10*d.*; Creditors on open account £1,158 6*s.* 1*d.* On the same day he died and left his entire estate to his wife (Grace Stoddart) absolutely. On April 30 the affairs of the business of Grace Stoddart (late Herne Stoddart) were in the same position as at the decease of her husband, with the exception that the Cash in Bank had diminished to £620 1*s.* 10*d.*; on the next day Grace Stoddart took into partnership her brother, L. Palairet, arranging that her

own Capital account should be credited with £2,500 for goodwill, that L. Palairet should bring in £5,000 Cash, and should entirely manage the business, for which he was to have a preferential claim on the profits of £400 a year. Grace Stoddart guaranteed all Assets and Liabilities at their book value on May 1. Interest on Capital and drawings to be at the rate of 5 per cent. per annum, and Profit or Losses divided equally after Palairet had been credited with his preferential claim.

The following is a summary of the trading of Stoddart and Palairet for the six months ending October 31st, 1895:—Credit Sales £1,793 1*s.* 7*d.*; Cash Sales £47 16*s.* 2*d.*; Paid Wages £500; Material purchased for manufactory £162 0*s.* 11*d.* Cash; Partners each drew out £150 on July 31st. Received from Sundry Debtors £2,101 16*s.*, and allowed them Discount £250 (half of which was to Debtors of May 1, 1895); Paid sundry Creditors £800, and were allowed Discounts £75; Trade Expenses £356 8*s.* 1*d.*; Drew on sundry Debtors £250; Gave their P/N to sundry Creditors £150. Received Cash for sundry B.R. £486; Paid sundry B.P. £79; Sold one third of Property for £1,890 Cash; Bad Debts made on Oct. 31 £200. (N.B.—The defaulting debtor was a debtor of the firm on May 1.) Value of Stock on October 31, 1895, £939 2*s.* 3*d.*

You are required to enter, post, and prove the books of the firm of Stoddart and Palairet for the six months ending October 31, 1895.

Exercise LXVIII.

On February 1, 1895, H. Longmans and W. Green decided to dissolve their partnership. From the particulars given below draw up

(i.) Liquidation Account.
(ii.) H. Longman's and W. Green's Capital accounts.
(iii.) A Statement showing the final Adjustment.

BALANCE SHEET ON JAN. 31, 1895.

Sundry Creditors ...		£4,125	Premises, &c. ...	£1,500
H. Longmans	Capital ...	1,400	Goods on hand ...	1,000
W. Green		475	Horses, Carts, &c. ...	150
			Cash in Bank ...	2,347
			Sundry Debtors ...	1,003
		£6,000		£6,000

Premises realised £850, Goods realised £591, Horses, &c., realised £54, Sundry Book Debts realised £723. The total cost of realisation was £195. In the partnership deed it was stated that H. L. was to receive three-fifths of Profits or Losses and W. Green two fifths.

LESSON XVIII

COMPANY BOOKKEEPING

I PROPOSE to divide this lesson into four sections.

§ A. What is a Limited Liability Company?

§ B. The Capital of a Limited Liability Company.

§ C. The Liabilities of a Limited Liability Company.

§ D. The Revenue of a Limited Liability Company.

§ A.

What is a Limited Liability Company?

When the amount of capital required in a business is large, it is very natural that capitalists should seek to avail themselves of the advantages of combination, and it is equally natural that under these circumstances they should shrink from the responsibility spoken of in our last lesson, the risk, that is, of losing not only the amount of capital they had themselves invested but also all their private property.

The **Joint Stock Company Act of 1862** provides a way out of this difficulty, by enacting that any seven or more persons who choose to comply with certain legal conditions may join in partnership and do business together, the **liability** of each one being strictly **limited** to the amount of capital he has subscribed for.

This is why such associations are called "**limited liability**

companies." Whatever the future difficulties of a limited liability company, the shareholder cannot be called on to contribute more than he bargained for when he joined. If he subscribed for £1,000 worth of shares, then £1,000 is the limit of his possible loss.

No one who has read or seen Gilbert and Sullivan's *Utopia Limited* is at all likely to forget the meaning of the expression "limited liability," or the name and date of the principal act under which such companies are constructed.

The legal conditions already referred to may be briefly stated as follows :

A **Memorandum of Association** must be lodged with the Registrar of Joint Stock Companies, stating—

(1) The name of the company.
(2) The situation of the registered offices.
(3) The object for which formed.
(4) That the liability of members is limited.
(5) The amount of Capital and how divided.

The **Articles of Association** are the laws and rules of the Company. There is a legal form provided by the act, which may be modified according to circumstances, but must not go beyond what is stated in the "Memorandum."

When the legal fees have been paid, the Certificate of Incorporation is issued and the Company is formed.

The law is very strict about the Accounts of Limited Liability Companies, and as this is the aspect of the subject that chiefly interests us, we will quote a few sentences from the act :—

Accounts.

"The Directors shall cause true Accounts to be kept—
Of the stock in trade of the Company,
Of the sums of money received and expended by the Company and the matter in respect of which such receipt and expenditure takes place ; and
Of the credits and liabilities of the Company.

"The Books of Account shall be kept at the registered office of the Company, and, subject to any reasonable restrictions as to the time and manner of inspecting the same that may be proposed by the Company in General Meeting, shall be open to the inspection of the members during the hours of business.

"Once at least in every year the Directors shall lay before the Company in General Meeting a statement of the Income and Expenditure for the past year, made up to a date not more than three months before such meeting.

"The statement so made shall show, arranged under the most convenient heads, the amount of gross income, distinguishing the several sources from which it has been derived, and the amount of gross expenditure, distinguishing the expense of the establishment, salaries, and other like matters: every item of expenditure fairly chargeable against the year's income shall be brought into account, so that a just balance of Profit and Loss may be laid before the meeting; and in cases where any item of expenditure, which may in fairness be distributed over several years, has been incurred in any one year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the year.

"A Balance Sheet shall be made out in every year and laid before the Company in General Meeting, and such Balance Sheet shall contain a Summary of the property and liabilities of the Company arranged under the heads appearing in the form annexed to this Table, or as near thereto as circumstances shall admit" (see pp. 436, 437).

STATISTICAL BOOKS.

In addition to the usual financial books of an ordinary house of business, a Limited Liability Company keeps certain other books called "**Statistical**," which I will give a brief list of here, referring to them more fully later on.

1. *Minute Book*, for recording particulars of transactions at all board meetings.

2. *Application and Allotment Book* (see page 442).

3. *Share Ledger* (see page 444).

4. *Register of Members.*

This latter may be compiled from the Share Ledger, or the latter may be (and often is) made to do duty for it.

5. *Call Book* (see page 446).

6. *Register of Transfers.*

7. *Annual List of Members, &c.*

8. *Register of Mortgages.*

The pro forma Balance Sheet shown over leaf will form the best possible text for the rest of our discourse. The Balance Sheet of a company, like the Balance Sheet of an individual, is the culmination of all the labours of the year. It brings everything to a focus. There is probably no detail of Company Bookkeeping that has not some bearing more or less direct on the Final Balance Sheet.

Notice first the Assets: I begin with the Assets because there is least to be said about them. If you have understood all that has been said in Lessons XI., XII., XIII., XIV., and XV., you will see that the same principle runs through all, viz.: *See that the book value is brought as closely as possible to the actual value.*

The following is the form of Balance Sheet referred to on

BALANCE SHEET PRESCRIBED BY

BALANCE SHEET OF THE _____ CO.

			£ s. d.	£ s. d.
I. CAPITAL		Shewing:		
	1	The number of Shares		
	2	The amount paid per Share ...		
	3	If any arrears of Calls, the nature of the arrear and the names of the Defaulters		
	4	The particulars of any forfeited Shares		
II. DEBTS & LIABILITIES of the Company.		Shewing:		
	5	The amount of Loans on Mortgages or Debenture Bonds ...		
	6	The amount of Debts owing by the Company, distinguishing:		
		(*a*) Debts for which acceptances have been given.		
		(*b*) Debts to Tradesmen for supplies of Stock in Trade or other articles... ...		
		(*c*) Debts for Law Expenses		
		(*d*) Debts for Interest on Debentures or other Loans		
		(*e*) Unclaimed Dividends ...		
		(*f*) Debts not enumerated above		
VI. RESERVE FUND.		Shewing: The amount set aside from Profits to meet Contingencies.		
VII. PROFIT & LOSS.		Shewing: The disposable Balance for Payments of Dividends, &c. ...		
CONTINGENT LIABILITIES.		Claims against the Company not acknowledged as Debts ...		
		Moneys for which the Company is contingently liable		

page 434 :—

COMPANIES ACT, 1862.—TABLE A.

MADE UP TO 18 .

			£ s. d.	£ s. d.
III. PROPERTY held by the Company.		Shewing :		
	7	Immovable Property, distinguishing :		
		(*a*) Freehold Land		
		(*b*) ,, Buildings ...		
		(*c*) Leasehold ,, ...		
	8	Movable Property, distinguishing :		
		(*d*) Stock in Trade		
		(*e*) Plant. The cost to be stated with deductions for deterioration in value as charged to the Reserve Fund or Profit and Loss.		
IV. DEBTS owing to the Company.		Shewing :		
	9	Debts considered good for which the Company hold Bills or other Securities		
	10	Debts considered good for which the Company hold no Security		
		Debts considered doubtful and bad		
	11	Any debt due from a Director or any other officer of the Company to be separately stated...		
V. CASH & INVESTMENTS.		Shewing :		
	12	The Nature of Investment and Rate of Interest		
	13	The amount of Cash, where lodged, and if bearing Interest		

The question of fictitious Assets is one of great importance. They do not appear on the pro forma Balance Sheet given, but they are often seen on actual Company Balance Sheets, and include the following items :—

Purchase Account.—This is a very vague description, and may mean all the Assets *plus* the Goodwill, or some of the Assets *plus* the Goodwill, or the Goodwill only. In so far as it represents no actual Asset, it should be written off by instalments.

Preliminary Expenses.—It is not considered necessary that the Expenses of starting a company should all be paid out of the first year's profits. This amount, which is of course a fictitious asset, must, however, be "written off" as speedily as possible.

§ B.

The Capital of a Limited Liability Company.

The first item we see on the Liabilities side of the Balance Sheet is CAPITAL. We shall now inquire (i.) What this consists of; (ii.) How it is obtained; and (iii.) How the entries respecting it are recorded in the books of the Company.

(i.) What is meant by the Capital of a limited liability company?

NOTE.—The true Capital of any business consists of its Assets. Capital Account shows how much of this belongs to the proprietors, and Capital Account strictly means Capitalist's Account. This is equally true in Mercantile and in Company Bookkeeping. Notice, however, in the latter these distinctions. The amount of Capital Account is not varied by adding thereto the net profit as in Mercantile Bookkeeping. To find the actual amount due to the shareholders, other items must be taken into consideration, as we shall see presently.

The *Nominal Capital* of a company is the sum named in the Memorandum of Association as the full amount which the Directors are authorised to **issue**. This is always split up into a number of **Shares**, each of a certain specified value.

A company starts, for instance, with a nominal capital of £500,000 in 100,000 Shares of £5 each.

The *Issued Capital* of a company is the *amount offered* in shares to the public. If these are all subscribed for, the Company is succesfully **floated**, and this is the "Subscribed" Capital.

Say 50,000 Shares at £5 each = £250,000.

The *Called-up Capital* is that part of the issued and subscribed capital which the Directors consider they have immediate need for in order to carry on the business of the Company. This they obtain from those who have subscribed for shares. (Say £3 per Share = £150,000.)

The *Paid-up Capital* is that part of the called-up capital which is actually paid, in response to the Directors' "call." (Say £149,000.)

There are not likely to be many who fail to respond to the call. If they do, they may have to forfeit what they have already paid.

The *Paid-up* Capital is the amount shown in the Balance Sheet of the Company under the head of "Capital."

(ii.) How is this Capital obtained?

The Directors issue a **prospectus**, in which they set forth :—

(*a*) The number of Shares offered to the public with the nominal value of each.

(*b*) The arrangements for payment of the money subscribed

(*c*) The object of the Company.

(*d*) The prospects of good **dividends.**

Now there is usually plenty of money waiting for safe and profitable investment. Some of it is perhaps already invested in other forms, the owners of which are not satisfied with the rate of interest it is yielding; but a good deal may consist of current balances at the bank, which yield no interest at all.

It happens, therefore, that the prospect of a good dividend is

an exceedingly attractive one, and if the people who have idle capital at their disposal think the directors of the Company good business men, and the prospect held out likely to be fulfilled, there will be plenty of **applications** for Shares. The prospectus, however, is pretty sure to state as one of the conditions that a fixed sum for every Share applied for must be paid "on application." These sums of money are paid in to the company's bankers, and are placed by them to the credit of the "X.Y.Z Company (Application Account)." We now begin to see where the Capital comes from.

But this is only the first stage: It is very probable that more Shares will be applied for than have been offered. Are the Directors in this case bound to take the names of those who apply, or can they pick and choose? They are at perfect liberty to pick and choose. They hold a meeting, discuss the list of applications, accept the number required, and reject all the others. This business of selection is called **Allotment.**

[It so rarely happens nowadays that an applicant can obtain all the Shares he wants (in a sound company), that it has become quite the practice to apply for more Shares than are really wanted. If the applicant finds after all that he gets more than he really wishes for he can **transfer** them, as explained later on.]

Those whose applications are entirely rejected have all their money returned to them, with a letter of regret.

Those whose applications are fully accepted are applied to for the amount payable on each Share "**On allotment.**" This they pay in to the Bank named in the prospectus, and the Bank place the money to a second account in their books headed "X.Y.Z Company (Allotment Account)." Here is a second instalment of Capital rolling in.

NOTE.—(i.) Those whose applications are only partly accepted have their surplus application money placed to their credit on Allotment Account. (ii.) Application and Allotment Accounts are frequently amalgamated.

Now by this time the list of Shareholders is complete, and each has promised to be responsible for so much, say for £5 per Share. Then if Alfred Brown has been allotted 100 Shares, Alfred Brown is responsible for £500, but he has not yet contributed all this. Perhaps the prospectus said £1 was payable on application and £1 on allotment. If so, A.B. has only paid £200 and is liable to be "called on" to pay £300 more. This is the *limit* of A.B.'s *liability*.

Now that the business of the Company is in full swing, as fast as the Directors want more money to conduct its operations they call upon the Shareholders (giving due notice) to furnish them with it. Most likely the date of the *first* "Call" would be stated on the prospectus. If this Call is for £1 per Share, then A.B. will have to contribute another £100 towards the Capital; and if there are 50,000 Shares issued the total amount of the first Call is £50,000, and this amount also is paid in to the Company's bankers, who place it to the credit of a third account in their books, entitled "X.Y.Z Company (First Call)."

The Directors perhaps find they have now got enough working capital. If not, they can make further Calls from time to time as may be necessary.

We see now clearly enough how the Capital is obtained. It rolls in, in three or four successive waves: Application, Allotment, First Call, Second Call, &c.

(Here work out Exercise LXIX.)

(iii.) How is all this INflow of Capital recorded, or in other words, what are the *opening entries* in Company Bookkeeping?

In order to answer this question we must now take a look at some of those "*Statistical*" books which were briefly referred to on page 435.

APPLICATION AND

	APPLICATION.					
Serial No.	DATE.	Number of Shares applied for.	Amount of Deposit paid.	Name.	Address.	Occupation.
1				A	—	—
2				B	—	—
3				C	—	—
4	1894 Jan. 5	100	£100	D	—	—
5	,, ,,	500	£500	E	—	—
				&c.		

On the student's first introduction to this book it is so apt to bewilder him with its mass of closely tabulated figures, that I have ventured somewhat to modify the orthodox forms without the slightest idea of suggesting any practical improvements, but solely with a view to the emphatic representation of the salient points to the learner's mind.

The columns on the left-hand page are filled up from the application forms received through the bankers.

The columns respecting Allotment are filled up on or after Allotment, —column (*a*), probably by the Directors themselves. The *particulars* in

ALLOTMENT BOOK.

ALLOTMENT.				SHARE LEDGER FOLIO.	Sundry particulars.			
DATE.	Number allotted.		Total amount payable in respect thereof.		Amount due on Allotment.	Amount returnable (if any).	Calls. Paid in advance.	REMARKS.
	How many Shares.	Which Numbers.						
Jan. 20	70	101–170	£140	17	40		—	
,, ,,	200	171–370	£400		—	100	—	
	(*a*)		(*b*)					

these columns are posted to the individual accounts of Shareholders in the Share Ledger, the folio of which is marked in the next column. The *total* of the column marked (*b*) is posted to the debit of Application and Allotment Account (collective Shareholders' account) in the General Ledger. The other columns will sufficiently explain themselves.

To avoid confusion only two examples are given. Shares allotted to Vendors (page 449) should appear first. Then the names of those who have signed the Memorandum. After that applications from the outside public.

SHARE

ALGERNON BORTHWICK,

35, Inverness Terrace, Hyde Park, London, W.

Dr. CASH.

1895			£	s.	d.
Feb. 16	To Share Capital—Application and Allotment : 300 shares of £4 each, £2 per share called up	J. 1	600	0	0

Shares Acquired.

Date of Registration.	Transfer No.	Share Ledger Folio.	Number of Shares Acquired.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid per Share.
1895						
Feb. 16 ...	Allotted		300	11,653	11,952	
Oct. 9 ...	7	19	20	723	742	£2

The upper half of this Ledger is usually ruled in the ordinary *Dr.* and *Cr.* form to contain what is called the "Shareholder's Cash Account."

(*a*) This account is *credited* with the amount of Cash paid (i.) on application; (ii.) on allotment, (iii.) on successive calls. These credits are made from the entries in the Company's Cash Book, which are of course based on the entries in the Company's Bank Pass Book.

(*b*) The Shareholder's Cash Account is *debited* (i.) with total amount in

LEDGER

LIEUTENANT-COLONEL, R.E.

CONTRA. *Cr.*

			£	s.	d.
1894 Dec. 31	By Cash Application	C.B. 1	300	0	0
1895 Feb. 24	,, do Allotment	C.B. 6	300	0	0

SHARES TRANSFERRED.						BALANCE.	
Transfer No.	Share Ledger Folio.	Number of Shares Transferred.	Distinctive Numbers.		Amount paid per Share.	No.	Capital.
			From.	To.			
						300	
						320	

respect of Shares allotted (from Allotment Book, page 442), (ii.) with the amount of successive calls from Call Book (see page 446).

The lower half of the Ledger is not exactly in *Dr.* and *Cr.* form. It does not represent a debt due either from or by the Company, but shows the number of the Shares acquired and transferred, and hence the number and nominal value of Shares still held—that is to say, the amount of (paid-up) Capital belonging to each individual Shareholder.

The **Call Book** is of a comparatively simple character, and needs very little explanation

CALL BOOK.

First call of £1 per share, making £3 paid up.

Date of Call. See Minute Book.	Name, &c.			Call.			Payment.		Interest.		Remarks.
	Name.	Address.	Description.	No. of Shares held.	Total Amount of Call.	Share Ledger Folio.	Date of Payment.	Cash Book Folio.	No. of Days.	Amount.	

(*a*) The amount due from each Shareholder is posted from this book to the *Debit* of each Shareholder's Cash Account in the Share Ledger.

(*b*) The total amount of the Call made is posted to the *Debit* of "First Call Account" in the General Ledger.

REGISTER OF TRANSFERS.

Date.	No. of Transfer.	Transferors.				Transferees.				No. of Shares Transferred.	Remarks.
		Folio in Register of Members.	Name.	Address.	Occupation (if any).	Name.	Address.	Occupation (if any).	Folio in Register of Members.		
1895 March 5	79	13	George Fraser	2, New Court, Lincoln's Inn	Barrister	G. E. S. Whatley	Elm View, Newton	Broker	97	12	

The particulars are taken from this book to the Share Ledger. The transfer cannot be considered as complete until this has been done.

Notice (or you will be considerably puzzled) that there is a sort of duplicate system of posting these opening entries, only one of which affects the final balancing of the books. We will call these two postings the Collective and the Distributive, and take a sort of bird's-eye view of each :—

I. *The Collective posting.*

(1) **Application Account Dr. To Share Capital Cr.**

The total amount of *accepted* application money.

[Application Account is a collective account and signifies "Sundry Shareholders," the entry showing that these Shareholders *owe* the Company the amount named for Shares. A *credit* entry will appear immediately to show that they have paid this sum.]

(2) **Cash (i.e. Bank) Dr. To Application Account Cr.**

For the total amount of application money received by the Bankers.

[NOTE.—This amount is found in the Company's Cash Book, which is made up from the Bank pass-book.]

(3) **Application Account Dr. To Cash.**

For sundry application moneys returned by cheque, with letter of regret.

[NOTE.—This amount is found in the Company's Cash Book.]

(4) **Application Account Dr. To Allotment Account.**

For sundry transfers as explained on page 440 Note (i.).

These four entries should close Application Account, which you will notice is merely a Suspense or Temporary account, the net amount of money received from this source finally resting in the collective personal account—"Share Capital Account."

(5) **Allotment Account Dr. To Share Capital.**

For total amount due from all the Shareholders on allotment

(6) **Cash Dr. To Allotment Account.**

For Cash received from Shareholders and paid in to the credit of Allotment Account at the Bank.

[Unless there are any defaulters entries 4, 5, 6 will close Allotment Account, the total amount received from this source resting also in Share Capital Account.]

(7) **First Call Account Dr. To Share Capital.**

(8) **Cash Dr. To First Call Account.**

Entries 7 and 8 will close Call Account unless there are defaulters.

Apart from possible irregularities the above entries may be usefully summarised thus :—

Dr.	*Cr.*
Application Account Allotment Account Call Account	To Share Capital.

Dr.	*Cr.*
Cash	To Application Account. To Allotment Account. To Call Account.

II. *Distributive postings.*

In addition to the above postings,

(i.) The Shares when allotted and the Calls when made are posted to the debit of each individual Shareholder in the **Shareholders' Ledger.**

(ii.) The Cash when received is posted to the credit of each individual Shareholder in the Shareholders' Ledger.

The Shareholders' Ledger is usually ruled in a special manner so that the upper half contains what is called the Shareholders' "Cash Account," and the lower half the Share Account (see page 444).

Miscellaneous Entries.

Purchase Account.—A company is frequently formed to purchase an existing business. An entry is then made at starting—

Purchase Account *Dr.* To M.N. (Vendors)

for amount of purchase money agreed on. "Purchase Account" here represents the total Assets taken over, *plus* the Goodwill *minus* the Liabilities. This should be duly distributed by another entry—

Assets (enumerated) *Dr.*
Goodwill *Dr.*
To Liabilities *Cr.*
To Purchase Account *Cr.*

The Vendors probably have agreed to sell the property, receiving payment partly in Cash and partly in Shares. In this case the Shares are most likely to be reckoned as fully paid up, and the Vendors should be accordingly at once debited with them—

Vendors Dr. To Share Capital.

for 30,000 fully paid Shares as per agreement.

Then when the Cash comes in, the Vendors are paid the agreed balance in Cash, and the entry

Vendors Dr. To Cash.

closes Vendors' account.

Calls not paid.—When Calls are not paid Interest is charged, through the Journal. The *total* amount of deficiency in this way is seen by looking at "Call Account," whilst the names of the individual offenders are seen in the "*Call Book.*"

Calls prepaid.—Shareholders are sometimes allowed to pay up their shares *in full*, when they are credited with

Interest on the difference between the amount paid and the amount called up.

Shares issued at a premium. When a company is in a flourishing condition it is sometimes able to issue shares "at a premium." That is to say, a £10 share may be offered for £11 cash, and if the company is in good repute plenty of subscribers will be found for shares thus issued. As the company will only have to pay dividends on the nominal value, the additional amount received by issuing at a premium is so much clear gain, and it might be supposed that the entry would be

Cash *Dr.* To P. and L. *Cr.*

But as it would be illegal to distribute dividends out of any profits of this kind, they are not reckoned as profits, but either placed to a Reserve fund or applied in diminution of some of those fictitious assets we have already spoken of.

Preference Shares. The Shares of a Company are frequently divided into Preference and Ordinary shares. The former are considered safer, but the latter often yield a larger return in the way of dividend. Suppose the X.Y.Z. Company issue £100,000 worth of six per cent. preference shares in addition to their ordinary shares. Then they are bound to pay out of their profits a dividend of six per cent. to the Preference Shareholders before they pay anything at all to the ordinary shareholders.

The entries for the issue of these shares are precisely the same as those for the issue of ordinary shares.

Cumulative preference shares have a first claim on the profits of any given year not only for the amount of percentage stated, but also for any deficiencies of former years, when the profits of the company were so poor that they could not pay the full amount of promised dividend even to the preference

shareholders (and of course nothing at all to ordinary shareholders). The holders of cumulative preference shares are thus pretty sure of a fair *average* yield for their investment; for even if one year sinks below their anticipations the next or some succeeding year may make it up.

Deferred Shares are those upon which no dividend is paid until the general body of Shareholders have received a stated percentage. *After* this these shares in some cases yield a larger percentage of dividend than other shares.

(Here work Exercises LXX. and LXXI.)

§ C.

The Liabilities of a Limited Liability Company.

These may be of three kinds :—

(*a*) Ordinary Liabilities, which differ in no respect from those of a private person.

(*b*) Debenture Bonds. We must now consider the nature of debentures, and of the entries made in the Company's books respecting them.

Suppose that a company finds itself in a position to do more business if it had more working capital. New premises or machinery may be needed, or mining operations may offer a good promise of success if pushed ahead.

Then if the credit of the company is good they may find it to their own advantage, that is to the advantage of the present shareholders, not to issue further shares or even to call up their unpaid capital, but to borrow.

How will they set about it? They prepare and publish a prospectus showing that they propose to give to every one who will lend them £100 a paper (called a **Debenture Bond**) acknowledging that they owe them the sum named, promising to pay it back on a certain specified date, promising meanwhile

to pay **Interest** at a certain rate (say 4 %), and **pledging** all their property, and perhaps their unpaid capital also, for the due and punctual payment both of principal and interest.

Such a pledge as this is a very strict one, and forms a very safe and valuable form of Investment, so that many people might be glad to lend the company money on such a security.

Suppose, then, that a company, after offering a certain number of four per cent. Debenture Bonds, should find that people were so eager to have them that three or four times more money had been offered than was wanted. Then the Directors might say: "We were foolish to have offered to pay *Four per cent.* interest. We should have raised our loan easily enough if we had said $3\frac{3}{4}$."

Suppose on the other hand that the Debentures are not nearly all taken up. Then the Directors would say: "We ought to have made a more tempting offer, say $4\frac{1}{2}$ per cent."

How, then, can a company in want of a loan be sure of getting all the money it wants without paying more interest than is necessary? In this way. They say to the public (by advertisement): "We have a certain number of £100 Bonds for sale. To each possessor of one of these bonds we will give £4 a year interest. How many bonds will you take, and what price will you give *per bond?*"

If money is abundant (Bank rate low), that is to say if safe investments at four per cent. are difficult to find, people will offer to give more than £100 for each bond.

If money is scarce (Bank rate high), that is to say if there are plenty of equally safe investments at four per cent., then people will either not come forward at all or will offer less than £100 per bond.

These offers are called **Tenders.** If the company feel pretty sure of getting as much money as they want, they will sometimes announce that "No tenders will be accepted below par." Then people know that if they are not prepared to give

at least £100 for each bond it is useless for them to send in a "tender."

Suppose that a company offer £500,000 worth of Debentures and receive the following tenders :—

£		£	*s.*	*d.*
40,000	@	102	12	6
100,000	@	102	10	0
200,000	@	102	7	6
150,000	@	102	5	0
100,000	@	102	2	6

in addition to a good many other tenders at lower prices, all of which they reject. They accept *in full all* tenders at the four highest rates and then require only £10,000 more. In other words they have sold nearly all their bonds and have only 100 more £100 bonds left for disposal. They therefore give to each person who tenders at £102 *2s. 6d.* one tenth of the amount applied for. Tenders at this rate are said to be accepted *pro rata.*

Now it is clear that the company only owe in respect of these debentures £500,000, but they have received in cash £511,887 10*s.* 0*d.*, so that they have made a very easy clear profit of £11,887 10*s.* 0*d.* by this transaction. This profit must not however appear in their Profit and Loss account, as we shall see presently.

(*c*) Debenture Stock. Debenture Bonds may be converted into Debenture Stock, and there is really not much difference between the two. Supposing when the time comes for repayment of the principal neither borrower nor lender cares to close the bargain. The borrower (the Company) still has need of the money. The lenders (the public) have no special need of the money except for its interest-producing virtue, and in this respect they are well content to leave it where it is. "Very well," say the Company, "give us back the bonds and we will

inscribe your names in our books as holders of so much Debenture Stock. We will continue to pay you the interest year by year as before, but we will make no promise as to when we will repay the principal."

An investor under this arrangement is in no worse position than he was as a bondholder. If he chances to want his money back, he cannot get it from the Company, but he can sell his "Stock" to some one else, and the Company will alter the name in their books, just as they would transfer bonds or shares from one holder to another.

The entries in the books of the Company on the issue of Debenture bonds are very similar to those made on the issue of ordinary shares.

(1) Cash *Dr.* To Debenture Application account.

For 5 per cent. received on applications.

(2) Debenture Application account *Dr.* To Cash.

For cheques returned for unsuccessful Tenders.

(3) Cash *Dr.* To Debenture Instalment account.

For remainder of cash received on account of successful Tenders.

The balances of the Application and Instalment accounts being transferred by Journal entry to "Debenture account," the latter now shows in one amount the sum due from the company to the holders of Debenture bonds.

A sinking fund is usually opened to redeem Debenture bonds. If a sufficient sum can be set aside out of profits every year and invested for this purpose, then when the redemption date arrives the Company clear off this liability and have added the amount to their own capital out of their profits. They will reap the benefit by not having to pay interest any more on this loan.

§ D.

The Revenue of a Limited Liability Company.

A Profit and Loss account in Company Bookkeeping is generally called **Revenue account**, or a Statement of Income and Expenditure. This last title is misleading, as the word "Expenditure" does not seem necessarily to include liabilities incurred but not paid during the period under consideration.

A Company Revenue account often includes in one statement an ordinary Goods or Trading account and an ordinary Profit and Loss account. There is no adequate reason for this confusing arrangement, and it would much conduce to clearness if Revenue accounts were made out in two divisions, as in mercantile Bookkeeping.

Taking, however, the customary method as a basis, we shall find it useful to consider the following points :—

(i.) What may *not* be reckoned as profit.

(ii.) What must be reckoned as Loss.

(iii.) How to appropriate the surplus.

(iv.) Dividends.

(i.) *What may not be reckoned on the side of "Revenue" or "Income."*

(*a*) There must be no *assumed profits.* Hence : (i.) The gross amount of sales on credit must always be subject to the consideration of an allowance for future bad debts on that portion of credit sales still unpaid for. This allowance should not, however, be exhibited as a deduction from the Sales, but should form a separate entry on the other side of Revenue account. (ii.) If the Company hold any shares of other companies as Investment, they must not assume an undeclared dividend on these shares.

(*b*) Cash Receipts (as we have frequently noticed before) are not the proper basis for profits. Hence no receipts of Cash for Debts due at a previous period must be reckoned as part of the profits of the present period.

(*c*) Profit gained by the issue of shares at a premium must not appear in Revenue account.

(*d*) The discount earned by discounting bills receivable for other people should be subjected to a rebate for the time yet to run on bills not matured.

TRANSFERS.

A legitimate item frequently seen as profit in a Company's Revenue account is for **Transfer fees.**

When shares in a company are transferred from one person to another, the operation involves both trouble and expense. This is an advantage in one respect to the holder of the shares, as it renders his property secure from theft. In addition to the usual stamp duties which go to Government, the Company must be paid for their trouble in the matter. Certain fees are charged, and paid in to the bank, perhaps to the credit of a separate account headed "Company X.Y.Z. Transfer fees." If entered in the Company's general cash account they are collected and journalised from time to time, so that at the end of the financial year they are shown on the *Cr.* side of Revenue account.

The transfer itself is registered first in the **Transfer Book** and thence it is posted to the Shareholders' Share account.

[No Journal entry is made in the Company's books of the consideration for which the shares were transferred, though the amount of such consideration is usually entered in the Register of Transfers.]

(ii.) *What must appear on the Expenditure side.*

Amongst other items usually found on the *Dr.* side of Trading and P. and L. accounts the following may be specially noticed. These will perhaps be better fixed in the mind if we present them in the form of an analysis under specific heads.

Management.

Commission
To procure Sales, &c., except in case of Insurance Companies.
Ordinary Expenses
Usually fixed beforehand.
Auditors' Fees
} due as well as paid.

Property.

Depreciation.
On Leasehold property.
On Machinery, &c., &c.
Repairs and Renewals
(see page 362).
Losses on Realisation

Interest.

On ordinary loans
On Debentures
On Mortgages
} whether paid or unpaid.

Obscure Liabilities.

Claims made but not settled, such as those on an Insurance Company.
Royalties (Mining Company).

Past losses (not yet reckoned).
Writing off proportion of *Preliminary Expenses*, &c.

Future losses (probable).
Allowance for *Bad Debts* (page 291).

(iii.) *How to appropriate the surplus.*

The surplus is of course net profit, and belongs in its entirety to the shareholders. It is for them, acting on the advice of the Directors, to say what they will do with it. It is simply a matter of prudence and policy. They can divide every penny of it amongst themselves if they please, or on the other hand they can allow every penny of it to remain where it is.

As a matter of fact they usually follow a medium course :—

(*a*) Certain sums are set aside either as General or Special Reserve Funds (see *pro forma* Balance Sheet, page 436).

(*b*) A large part of what remains is **divided** amongst the shareholders in proportion to the amount of paid-up shares held by each.

(*c*) The small remainder is carried forward to begin the new Profit and Loss account with.

The exact amount appropriated to each of these objects is shown in a special account called **Appropriation** account.

Revenue account (consisting as you will remember of Trading account *plus* Profit and Loss account) and Appropriation account are sometimes embodied in one, the account being divided into three sections, as in the example on the next page.

The act of deciding how much of the available profit shall be devoted to (*a*), (*b*) and (*c*) respectively is a very responsible one, and calls for the exercise of no little financial skill on the part of the Directors. Theoretically question (*a*) comes up for consideration first, but practically question (*b*) takes the precedence, and we may suppose it to take some such form as this : Can we *safely* recommend a dividend somewhat in advance of public expectation ?

If so the market price of the shares will advance and the shareholders will meet the Directors in the City with smiling faces.

REVENUE ACCOUNT

(Pro Forma) of a Trading or Manufacturing Company.

To Stock of Materials, &c., on hand (at commencement of period) ...		By Sales	
,, Wages		,, Stock on hand (at end period)	
,, Purchases			
,, Balance carried down, being Gross Profit ...			
,, Trade Expenses ...		,, Balance brought down	
,, Interest on Loans and Debentures		,, Transfer Fees	
,, Depreciation— viz.—(*a*) ...		,, Rents Received ...	
(*b*) ...			
,, Bad Debts			
,, Amount written off Preliminary Expenses a/c			
,, Balance carried down, Net Profit		,, [Balance carried down, being Net Loss] ...	
,, [Balance brought down, being the Net Loss for the period]		,, Balance brought down, being the Net Profit for the period ...	
,, [Balance brought from previous Revenue a/c (deficiency at that date)]		,, Balance brought from previous Revenue a/c (surplus at that date)	
,, Interim Dividend ...			
,, Proposed Dividend at — per cent. per annum			
(*a*) On Preference Shares ...			
(*b*) On Ordinary Shares ...			
,, Balance carried to Balance Sheet, being amount of Undivided Profit at end of the period		,, [Balance carried to Balance Sheet, being Deficiency at this date]	

EXAMPLE I.

25,000 shares £5 paid up = ...	£125,000
Revenue account shows a surplus of Net Profit.	15,000
The Directors recommend—	
(*a*) To carry to Reserve Fund	2,000
(*b*) To declare a dividend of 10 % on the half year	12,500
NOTE.—Dividend is always reckoned on *paid-up* capital.	
(*c*) The balance to the new Profit and Loss account	500
	£15,000

EXAMPLE II.

Good Reserve Fund. Bad year. Dividend partly out of reserve.

Reserve Fund	£38,000	
Last year's addition	2,000	£40,000
Net profit, including £500 balance of last account		5,000
Balance brought from Reserve account. . . .		5,000
Dividend at 8 %		£10,000

EXAMPLE III.

Better year. Restoration of Reserve Fund.

Net Profit	£15,500
Appropriation :—	
To Reserve Fund	5,000
Dividend 8 %	10,000
Balance to New P.& L.	500
	£15,500

(Here work out Exercises LXXII., LXXIII., and LXXIV.)

(iv.) *Dividends.*

It will be well now to look at the question of dividends rather from the Investor's point of view. The Investor may ask himself

(*a*) What sort of shares shall I invest in?

(*b*) What company shall I invest in?

(*a*) Shall I invest in Debentures, Preference shares, Cumulative preference shares, or Ordinary shares? Debentures are the safest, but usually yield the least amount of interest.

Preference shares have a fixed percentage of dividend allotted to them before any is paid on ordinary shares. Cumulative preference shares not only take this fixed percentage of dividend, but if there have been previous bad years when not even the preference shareholder was able to receive his promised dividend, then when the good year comes the accumulated balance of these past disappointments must be all wiped out before the poor ordinary shareholder begins to take his share. Ordinary shares (notwithstanding all this) are sometimes very profitable investments. When a company is very flourishing indeed it can afford to pay 4 per cent. on its Debentures and 5 per cent. to its Preference shareholders and still have a handsome surplus to divide amongst the ordinary shareholders.

(*b*) What Company shall I invest in?

Safety is of course the chief thing, and as a general rule it is of course true that the greater the profit the greater the risk. But the question often arises, Which of several investments (all regarded as equally safe) will yield the best return for my outlay?

Suppose $2\frac{3}{4}$ per cent. Consols are at $104\frac{5}{8}$ (as they were yesterday, Jan. 14). Then for each £ invested I receive £$\frac{2\frac{3}{4}}{104\frac{5}{8}}$, and for each £100 invested I receive £$\frac{2\frac{3}{4}}{104\frac{5}{8}} \times 100 =$ £2 12*s.* 7*d.* (nearly).

Suppose at the same time a bank has certain shares of £50 each (£8 paid up), and is paying dividends at the rate of 15 per cent., and suppose the market price of these shares is £25.

Then for each £25 invested I receive 1 share, and for each share held I receive $\frac{15}{100}$ of £8 = £1$\frac{1}{5}$.

∴ for each £25 invested I get £1$\frac{1}{5}$ income

and „ „ £100 „ „ „ £4 16*s.* 0*d.* „

If the bank is considered safe and the dividends likely to continue, the latter is therefore much the better investment of the two. But in this connection the element of risk must be considered in the liability of fresh "calls" being made on the subscribed capital.

APPENDIX.—DOUBLE ACCOUNT SYSTEM.

Before closing this lesson on Company Bookkeeping it is necessary to say a word about the Capital accounts of Railway and Gas Companies, which are sometimes a great puzzle to students of Bookkeeping, as they seem to be quite out of harmony with the ordinary idea of a Capital account.

Companies for special public works (such as Railways, Gas Works, Canals, &c.) formed by special Acts of Parliament are strictly enjoined by the Act to employ a certain system of account keeping which is known amongst accountants as the "**Double Account System.**"

Under this system the accounts of the Company in question are divided into two sections, which might indeed be termed two distinct "*systems*" or series of accounts, both kept of course by Double Entry *methods.*

First Series.

Design.—To show (i.) the Capital raised to construct the Works of the Company; (ii.) How that Capital has been expended.

All INcomings and OUTgoings of Assets and Liabilities referring to either of these two points come under this system, and are focussed in an account called **Capital Account.**

SECOND SERIES.

Design.—To show (i.) Total Revenue arising out of the carrying on of the Company's Works ; (ii.) The expenses and losses incurred in carrying on the works and maintaining them in a state of efficiency ; (iii.) The Net Profit [arising from the excess of (1) over (2)] available for division among the shareholders.

All INcomings and OUTgoings of Assets and Liabilities referring to any of the above points come into this system, and are focussed in an account called **Revenue Account.**

It will thus be noticed that there are "*Capital*" Assets and Liabilities, and "*Revenue*" Assets and Liabilities, and that the one set must on no account interfere with the other.

Notice very carefully the following radical distinctions between these accounts and all those that we have hitherto been considering.

(1) There are no accounts to show the capital value of the chief Assets, viz. the works of the company. (Hence there is no trouble about adjustment of such accounts as in ordinary Bookkeeping.)

(2) Capital Assets are not available for the discharge of Liabilities. (The works *must* be carried on, and may not be disposed of at the mere will of the Directors.)

(3) A rise or fall in the value of the Capital Assets does not *per se* affect the Revenue, as in ordinary Bookkeeping. (Of course it may disturb the value of the shares, but that does not affect the accounts of the Company.)

The following Forms of Account are prescribed by the Railways Act of 1868.

1. A statement of Capital authorised and created by the Company.

2. A statement of Stock and Share Capital created showing the Proportion received.

3. A statement of Capital raised by Loans and Debenture Stock.
4. *A statement of Receipts and Expenditure on Capital account.*
5. Details of Capital Expenditure.
6. Return of Working Stock.
7. Estimate of further expenditure on Capital account.
8. Capital powers, &c., available to meet further Expenditure.
9. Revenue account.
10. Net Revenue account.
11. Appropriation account.

The most important of the above forms are Nos. 4, 9, 10, 11. The last three of these are sufficiently like the examples of these accounts already given to need no further illustration, but No. 4 is so unlike an ordinary Capital account that an example is appended below.

Dr. RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT. *Cr.*

	Amount Expended to	Amount Expended during Half-year.	Total.		Amount Received to	Amount Received during Half-year.	Total.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Expenditure—				By Receipts—			
On Lines open for Traffic (No. 5)				Shares and Stock, per Account No. 2			
On Lines in course of Construction (No. 5)				Loans, per Account No. 3 ...			
Working Stock (No. 5)				Debenture Stock, per Account No. 3			
Subscriptions to other Railways (No. 5)				Sundries (in detail)			
Docks, Steamboats, and other special Items (No. 5)				NOTE.—*The numbers refer to the list at the top of the page.*			
,, Balance							

EXERCISES ON LESSON XVIII.

Exercise LXIX.

(From Intermediate Chartered Accountants, June, 1893.)

(*a*) What books are specially required to be kept by a Limited Company to meet the requirements of the Companies Acts?

(*b*) What is the use of a Journal in the bookkeeping of a Limited Company?

(From Intermediate Chartered Accountants, December, 1894.)

(*c*) If on the formation of a Limited Company you were instructed to provide the requisite books, exclusive of books for trading purposes, what would you supply? Rule a form of the book in which the Capital of each Shareholder would appear.

(*d*) What is understood by the term "Preliminary Expenses" in the accounts of a Company, and what items are properly included therein? How are the preliminary expenses usually dealt with in the P. & L. Account and the Balance Sheet?

Exercise LXX.

(Intermediate Chartered Accountants, June, 1893.)

The Washington Manufacturing Co., Limited, has issued Capital in Preference Shares 4,000 at £10 each, Ordinary Shares 6,000 at £10 each, also Debentures 300 at £100 each. The Debentures are payable at £10 each on application, £20 on allotment, and £70 at three months. The Preference Shares at £1 on application, £3 on allotment, and £3 each at three and six months. The Ordinary Shares are allotted to Vendors as fully paid. The Vendors are Paul Jacob and Simon Montfort in equal shares, and the property taken over from them may be treated in one item as £60,000, as on Feb. 1, 1892, which is the date of allotment. Set out the Journal entries under their respective dates, credit in Cash paid to Bank the amounts received at due dates, and prove the whole by a Trial Balance.

Exercise LXXI.

A company is formed with a Nominal capital of £50,000 in 5,000 shares of £10 each. Of these 3,000 are issued and subscribed for. Assuming that £1 is payable on Allotment, £2 on Application, and that a Call of £3 per share is made at the Expiration of three months, give (i.) the total amount of paid up capital; (ii.) the opening Journal entries.

Exercise LXXII.

On March 31, 1895, the balance available for Dividend of the Koskiosko and Santa Buttes Railway, Limited, was £1,567,326 13s. 8d. You are required to apportion to the holders of Consolidated Guaranteed Stock (of which there is £17,291,388) a dividend of 5 per cent., to the holders of Preference Stock (of which there is £11,565,612) a dividend of 5 per cent., and the holders of Ordinary Stock (of which there is £20,995,044) a dividend of $7\frac{1}{2}$ per cent. Make out Appropriation account, showing the balance carried to next account.

Exercise LXXIII.

(Chartered Accountants, June, 1893.)

The Washington Manufacturing Co., Limited (see Exercise LXX.), at January 31st, 1893, had made profits amounting to £10,650, to be apportioned as follows:—Directors' Fees, £1,000; Reserve Fund, £2,000; Debenture Interest at 5 per cent.; Preference Shares at 6 per cent. Appropriate the rest in Dividend on Ordinary Shares at an even rate per cent., carrying forward not less than £900. Make out the Appropriation account.

Exercise LXXIV.

The net profits of the company referred to in Exercise LXXI. at the end of the first half year were found to be £1,000. Assume that £200 was paid as Directors' fees, £25 as Auditors' fees, £100 set aside as a reserve, and the remainder distributed as dividend. (i.) Make out Appropriation account. (ii.) State at what rate per cent. per annum the dividend was declared.

Exercise LXXV.

(Chartered Accountants.)

Some Companies, such as Railways, strike a balance of their capital receipts and payments and bring the net amount into their Balance Sheets. Others enter the total capital received and the total capital expenditure in

their Balance Sheets. Which course do you recommend, and under what circumstances, if any, is the former method of stating the accounts desirable?

Exercise LXXVI.

(Chartered Accountants.)

Describe the Capital Account which is required of Companies constituted by Special Acts of Parliament, such as Railway, Gas, and Water Companies.

Exercise LXXVI. (*b*).

Make out a pro formâ Capital account as above.

Exercise LXXVI. (*c*).

Describe the Double Account System and state in what important particulars it differs from ordinary systems of Account Keeping.

LESSON XIX

ERRORS

It is plain that if every account has its correct balance there is no error *in the books*. Now every account will certainly have its correct balance if there has been no under or over debiting and no under or over crediting. If therefore there really is an error in the books it must arise from

an over debit
an over credit
an under debit
or an under credit

} or a combination of any or all of these four.

Suppose there is an error in the Trial Balance resulting from taking out the balances incorrectly, then there is no over debiting or crediting and no under debiting or crediting and yet an error. Ah yes, but not *in the books*. I once knew a bank manager who, when asked if the daily balance was right, would invariably reply, "It *appears* to be," or "It does not *appear* to be." Past experience had taught him that appearances were sometimes deceptive.

Hence if you should ever be called upon to assist in tracing an error that has caused much trouble and baffled the efforts of the ordinary clerks, it might not be amiss for you to begin your labours by assuring yourself that the error actually exists

in the books, that it is not after all the mere *ghost* of an error, traceable to the rough memoranda used in taking out the balance. It is hardly worth while hunting for a will-o'-the-wisp!

Suppose however an error arises from bringing forward a total or a balance wrongly in the books, or omitting to bring a balance forward, or miscasting any of the books. Is that a case of erroneous debiting or crediting? Certainly it is, for its effect must be to cause either the debit or the credit of some account in the books to stand too high or too low. Mistakes of this kind are a very common and subtle cause of discrepancies in the final balance.

If we try now to **classify** the errors of most frequent occurrence, it will help us to see what steps we can take to prevent them, or to ensure their early discovery, the **detection** of their source, and their ultimate **rectification** in the books.

ERRORS IN THE DAILY CASH BALANCE.

These are always difficult and sometimes impossible to *trace.* They are however *discovered* immediately by the failure of cash in hand to agree with the balance of cash account. If all attempts to trace them fail, they must be carried to "Error (Suspense) account," in the hope that one day they will be found out and rectified.

When all cash transactions pass through the Bank, there is no fear of any untraceable errors in this book. The responsibility lies with the Bankers, who may be asked to show the voucher for any doubtful items.

As soon as an error is discovered we try to trace it (perhaps through many dark and devious windings) to its *fons et origo.* We must therefore, in examining the annexed table, pay special attention to the **source** of the error.

TABLE OF

	Source of Error.	Cause of Error.	Single or Double.
1	Cash Book.	Wrong Amount entered.	**Double.**
2	Invoice Book or Day Book.	Wrong Amount entered.	**Double.**
3	Journal.	Wrong Amount entered.	Single, unless both debit and credit amounts are wrong.
4	Ledger.	Wrong Amount posted.	Single.
5	Any Book of Original Entry.	Entered to wrong **Account.**	**Double.**
6	Ledger.	Posted to wrong A/c.	**Double.**
7	Ledger.	Omission to post.	Single.
8	Ledger.	Posted to wrong side of right Account.	Single error of double the amount.
9	Ledger.	Both debit and credit posted to wrong side of right Account.	**Double.**
10	Cash Book.	Error in casting or bringing forward.	Single.
11	Day Book or Invoice Book.	Ditto.	Single.
12	Journal.	Ditto.	Single.
13	Ledger.	Ditto.	Single.

NOTE.—**Double Errors are the**

ERRORS.

When and how discovered.	How to prevent.
By non agreement of Cash when balancing, or non agreement of Pass Book.	Enter from original vouchers. Post from ditto. Then compare enterings and postings.
By comparison of Invoice, Order Form, contra statement, or perhaps Warehouse Book. Possibly never discovered.	Enter from Invoice or Order Form. Let each entry be checked and initialed. Check *quantities* of goods, &c.
If single, by casting Journal. If double, it depends on the nature of the accounts involved.	The adoption of a **tabular** Journal is a great preventive (see p. 385).
Trial Balance.	Look at the figures carefully. Repeat them aloud. Think about them.
Discovered on balancing the account if any means of checking, or on delivery of statement or settlement. Otherwise not.	Hang up list of dangerous similarities in the office.
Same effect as above.	See page 90.
Trial Balance.	See Lesson VII. p. 92 (*b*).
Trial Balance.	1. Let one clerk post debits and another the credits. 2. Place Journal, &c., to the **left** when posting debits, and to the **right** when posting credits.
Discovered on balancing either of the accounts affected, if there is any means of checking this balance.	See above.
In balancing C.B.	Cast a second time, and check "brought forwards."
Trial Balance.	Ditto.
Agreeing two sides of Journal.	Ditto.
Trial Balance.	Ditto.

dangerous ones (see page 475.)

Errors may be classified according to their Cause; their Source; or their Effect.

(*a*) The three main *causes* of error are careless figures causing mistakes in the **amount** (1, 2, 3, 4), careless writing or posting causing mistakes in the **account** (5, 6, 7, 8, 9), and careless **castings** or bringings forward (10, 11, 12, 13).

(*b*) The *sources* or *localities* of errors are as various as are the books of the business concerned. Yet these may be usefully divided into two main classes: (i.) errors in the Ledgers; (ii.) errors in the books of original entry.

(*c*) Errors may be classified according to their *effect* into two main divisions.

I. **Single errors**, or those that disturb the Proof.

II. **Double errors**, or compensating errors, which do not disturb the Proof.

I. SINGLE ERRORS.

Notice that all errors of this description are sure to be revealed by the Trial Balance, unless found out previously.

Hence we have first to think of errors in the Trial Balance and how to **trace** them to their source.

ERROR HUNTING.

(1) Find out distinctly and definitely by how much you differ.

(2) *If the difference is a simple amount* such as £1 or £1,000 or 10*s*. the probability is that the error is in the casting or bringing forward, page 470 (Nos. 10, 11, 12, 13).

(*a*) Check all balances and totals brought forward, beginning with the work of the least experienced clerks.

(*b*) Look for the tails of 9's and 7's. They sometimes get cast up as 1's in the next row

(*c*) Look for crowded figures, especially such numbers as 1,000 where the 1 is apt to get crowded into the "hundreds" column.

(*d*) Try all castings again. If the amount is under £1, do not cast *beyond* the units of the pounds column (but cast up to it or you may only "*appear* to prove" after all).

(3) *If the difference is a complex amount* consisting of £ *s. d.* as for example £86 19*s.* 8*d.* consider (i.) the probability that some amount of this kind may have been *omitted* altogether from one side of the Ledger (No. 7, page 470). To discover this, search the books (and the memory) for the amount in question.

Consider (ii.) the probability of some posting having been made to the *wrong side of an account* (No. 8). To discover this, search for half the amount of your difference.

(4) If the difference consists of some amount like 11*d.* (= 1*s.* less 1*d.*), 2*s.* 9*d.* (= 3*s.* less 3*d.*), 19*s.* (= £1 less 1*s.*), £18 (= £20 less £2), £45 (= £50 less £5) you may always strongly suspect an accidental *reversal of figures.* The following table will help to illustrate this.

7 2 2 7	9 4 4 9	5 0 0 5	The reversed figures differ by *five.*
4 7	4 7	4 7	Difference 5/– less –/5.
£ *s.* *d.* 3 0 0 0 3 0	£ *s.* *d.* 6 3 0 3 6 0	£ *s.* *d.* 8 5 0 5 8 0	The reversed figures differ by *three.*
2 17 0	2 17 0	2 17 0	Difference £3 less 3/–.
624 642	790 970	681 861	The reversed figures differ by *two.*
18	180	180	Difference 18 (or 2 Tens less 2 Units).

(5) The difference may be caused by *a shifting of figures*, for example, £84 8*s.* 9*d.* written for £848 9*s.* 0*d.* To test this, proceed as follows :—

(i.) Set down the "difference."

(ii.) Add to the pence such a number as will make up 1*s.* Set down the number just added underneath the pence of the "difference" and perform the casting.

(iii.) Now add to the shillings an amount sufficient (with the 1 carried from the pence) to make up the total to the number you have just added to the pence.

(iv.) Add to the units figure of the pounds enough to make it equal (with the carrying figure) to the number just added to the shillings, and so on.

(v.) Then if the last figure in the total is the same as the last figure in the addendum, the probability is that the error can be accounted for by an unconscious shifting of figures, and you must search the books (and the memory) for the particular combination of figures revealed by your little experiment.

EXAMPLE.

	£	*s.*	*d.*
I differ	705	5	3
Addendum	78	3	9
Result	783	9	0

∴ The above difference is *probably* caused by a shifting of figures—£78 3*s.* 9*d.* for £783 9*s.* 0*d.*

	£	*s.*	*d.*
I differ	148	1	5
Addendum	27	5	7
Total	175	7	0

∴ The above difference is not caused (entirely) by a shifting of figures.

(vi.) Bear in mind the possibility of a complex error. For instance, if the difference given in the second example above had been £248 1*s.* 5*d.* instead of £148 1*s.* 5*d.* a shifting of figures would account for it.

	£	*s.*	*d.*
Instead of writing	275	7	0
Suppose a clerk had written	27	5	7
Then the difference would be	248	1	5

So that it might be worth while in this latter case to prowl about for such an amount as £27 5*s.* 7*d.* in hope of reducing the difference to a simple £100, when all hands would be at once set to work to check the castings, &c.

(vii.) If a difference exists, it must be either that the *debits exceed the credits* or that the *credits exceed the debits.* It is important and exceedingly useful throughout the whole of your hunting campaign (these hunts are lengthy affairs sometimes) to have a clear idea on which side the excess lies. For lack of this consideration inexperienced hunters will often scour the country in directions where nothing is ever likely to reward their efforts. In some houses the word "*over*" is used to denote an excess of debits over credits, and the word "*short*" to denote an excess of credits over debits. Thus if it were said that the clerks were £57 12*s.* "over," it would not necessarily indicate any discrepancy in the Cash balance, but simply that the debit postings appeared on first trial to be £57 12*s.* in excess of the credit postings.

(viii.) If all other efforts fail, there may perhaps be nothing for it but to go over every entry and every posting since the last balance! This appalling task is very rarely needed in business where a good system of intermediate checks is in vogue. If it has to be resorted to, extreme care must be exercised, each entry being called over by one person and *responded to* in a clear and articulate voice by another, both persons ticking off with a pencil of distinctive colour.

(ix.) Remember that no error in Trial Balance can possibly escape ultimate detection if only your patience and perseverance hold out.

II.—DOUBLE ERRORS.

Double or compensating errors are not revealed by Trial Balance.

We must first explain how it is that each of the errors set

down as "double" in the Table on page 470 are of this nature.

(No. 1) An entry of the wrong amount to A. B. in the Cash Book affects the balance of Cash account to the same extent as it affects the balance of A. B.'s account, but in a contrary direction. Hence this is a compensating error and is not revealed by Trial Balance.

(No. 2) If the wrong amount is entered in the Day Book or Invoice Book the Total of that book is also wrong. This "compensates" for the original error by introducing a second; hence there is no discrepancy in the Trial Balance.

(No. 5) If A. B. is debited (or credited) instead of C. D. the total amount of debits (or credits) is not affected. Hence the Trial Balance shows no discrepancy.

(No. 6) The same remark applies here as in the case of No. 5. (Note, however, that daily "calling over" would at once reveal an error of this class.)

(No. 9) A. B. is debited instead of C. D. C. D. is credited instead of A. B. It is clear that this is a duplicated case of error No. 5, and that the total both of debits and credits remains unaffected.

There is no question of **tracing** Double errors. The first discovery and the detection of the source are here simultaneous. There is no hunting, for there is no discrepancy to hunt for.

Double errors are for this very reason exceedingly dangerous, and every possible means must be taken to prevent them. Some errors of this class are never detected, others remain undetected and perhaps undreamt of for years, when they suddenly reveal themselves to the consternation and annoyance of the proprietors of the books.

The most obvious means of prevention are briefly indicated in the Table of Errors already given, &c., &c.

These may be usefully summarised as follows:

(1) Think about every entry as you make it.

(2) Check all castings.

(3) Call over all postings.

(4) Use Tabular Methods as far as practicable.

It may be laid down as a *general rule* that errors of this class are almost invariably brought to light by the process of "**Reconciliation**" described in Lesson XI. (page 187), and in Lesson XIII. (page 295), when they can be promptly and conveniently rectified.

It is not politic however to place too much reliance on this method of detection. It throws the burden of finding out our own mistakes on other people's shoulders, and should not therefore be resorted to until all other means of securing accuracy have been exhausted.

RECTIFICATION.

(*A*) *Rectification of original entries.*

The general rule for the rectification of all errors that have their source in the books of original entry, is to make a compensating Journal entry which shall have the effect of restoring all the accounts concerned to their correct state.

Omissions in any of these books, if discovered before the closing of the books, are rectified by simply making the necessary entries in the books concerned. An omission in the Cash Book can be entered therein after closing and balancing, (*e.g.* on the next day), if the period for balancing and closing the Ledgers has not passed. If it has, the error must be rectified by Journal entry.

The Journal error marked (v.) on page 478 is of very rare occurrence. It should be of course discovered by the casting of the folio on which it occurs. Suppose that instead of journalising A. B. *Dr.* To C. D. £60, the entry has been made as on page 480.

ERRORS IN BOOKS

ERROR.	
Journal—	
(i.) *Amount overstated* ...	A.B. over-debited C.D. over-credited
(ii.) *Amount understated* ...	A.B. under-debited C.D. under-credited
(iii.) *Reversal*	A.B. *Dr.* To C.D. instead of C.D. *Dr.* To A.B.
(iv.) *Wrong name of account* ...	A.B. credited instead of C.D. A.B. debited instead of C.D.
(v.) *One right, the other wrong*	A.B. over-debited *or* over-credited — C.D. correct
Day Book	A.B. overstated A.B. understated A.B. entered instead of C.D. A.B. omitted
Invoice Book	A.B. overstated A.B. understated A.B. entered instead of C.D. A.B. omitted
Cash Book Inwards	A.B. overstated A.B. understated A.B. entered instead of C.D A.B. omitted
Cash Book Outwards	A.B. overstated A.B. understated A.B. entered instead of C.D. A.B. omitted
B.R. & B.P. Books	Similarly

OF ORIGINAL ENTRY.

CORRECTION.
General Rule—Make Restoration Journal entry and post it.
C.D. *Dr.* To A.B.
A.B. *Dr.* To C.D.
C.D. *Dr.* To A.B. (for *double* the amount).
A.B. *Dr.* To C.D. C.D. *Dr.* To A.B. Credit A.B. referring to erroneous entry Debit A.B. referring to erroneous entry.
Goods *Dr.* To A.B. (for the amount of the difference). A.B. *Dr.* To Goods (for the amount of the difference). C.D. *Dr.* To A.B. Enter in Day Book if not closed. If closed Journalise A.B. *Dr.* To Goods.
A.B. *Dr.* To Goods (for the amount of the difference). Goods *Dr.* To A.B. (for the amount of the difference). A.B. *Dr.* To C.D. Enter in Invoice Book if not closed. If closed Journalise Goods *Dr.* To A.B.
A.B. *Dr.* To Cash (for the amount of the difference). Cash *Dr.* To A.B. (for the amount of the difference). A.B. *Dr.* To C.D. Enter in C.B. Inwards if not closed. If closed Journalise Cash *Dr.* to A.B.
Cash *Dr.* To A.B. (for the amount of the difference). A.B. *Dr.* To Cash (for the amount of the difference). C.D. *Dr.* To A.B. Enter in C.B. Outwards if not closed. If closed Journalise A.B. *Dr.* to Cash.
Similarly.

A. B. *Dr.* £80
To C. D. £60

Then, on discovery of the error, a second erroneous Journal entry must be made with a reference to the first. Either

A. B. *Dr.* (the correct amount) . . . £60
To A. B. *Cr.* (the incorrect amount) £80

or

(no debit)
To A. B. *Cr.* (the over debit) £20

Other errors in the books of original entry are rectified as shown in the table on pages 478, 479.

(Here work out Exercise LXXVII.)

(*B*) *Rectification of posting errors.*

On the presumption that no original entry of any transfer is to be made in the Ledger, and that no alterations or erasures are allowed in any of the account books, how are we to rectify an error that has been made in posting?

1. *Post the entry correctly.*

It has been posted incorrectly I know, but never mind that at present. Proceed on the assumption that you have not yet posted it at all, and post it correctly. If a double error, post *both* entries correctly. This will tend to make your *Ledger* agree with your Journal.

2. *Journalise the erroneous posting!*

That is to say, as you have got it wrong in your Ledger you must now make a precisely similar wrong entry in your Journal. This will make your *Journal* agree with your *Ledger*.

We have thus far arrived exactly at the same condition of things, as we have been considering on pages 478, 479. We have an error in the original books correctly posted into the Ledger. We therefore proceed as follows :—

3. *Make the corrective Journal entry.*

In order to *restore* all the accounts concerned to the state in which you desire to have them. (See Table pp. 478, 479.)

4. *Post the above Journal entry.*

By way of illustration, take four familiar examples of simple errors in posting.

(*a*) *Wrong amount.*

Posted £84 3*s.* 6*d.* to debit of A. B. instead of £83 4*s.* 6*d.*

(*b*) *Wrong account.*

Posted £25 to debit of X. Y. Z. instead of A. B

(*c*) *Wrong side.*

Posted £100 to the debit of A. B. instead of to his credit.

(*d*) *Reversal.*

Posted £50 to A. B.'s debit and C. D.'s credit, instead of the reverse.

EXAMPLE (*a*) *wrong amount.*

Posted to the debit of A. B. £84 3s. 6d. instead of £83 4s. 6d.

(1) Post the entry **correctly**.

Dr. A.B.'s ACCOUNT. *Cr.*

	£	*s.*	*d.*
Sundries (correct) ...	100	0	0
Incorrect Posting ...	84	3	6
Correct Posting ...	83	4	6

(2) Make erroneous Journal entry to tally with erroneous Ledger posting.

(3) Make the compensating Journal entry to set the accounts straight.

In cases of this kind Rules 2 and 3 may be combined, the erroneous Journal entry being A. B. *Dr.* £84 3*s.* 6*d.* (with no credit) and the corrective Journal entry being To A. B. *Cr.* £84 3*s.* 6*d.* (with no debit).

The resulting Journal entry will therefore be

A. B. *Dr.* ... ... £84 3*s.* 6*d.*
To A. B. *Cr.* ... ... £84 3*s.* 6*d.*

This is sometimes called a "blind entry." It has a painful appearance to the accountant's eye, and can be avoided by carrying the amount to a Temporary account. Let us call it Error account. Then Rule 2 will be obeyed thus—

A. B. *Dr.* ... ... £84 3*s.* 6*d.*
To Error Account ... ... £84 3*s.* 6*d.*

and Rule 3 will be satisfied by the entry—

Error Account *Dr.* ... ... £84 3*s.* 6*d.*
To A. B. ... ... £84 3*s.* 6*d.*

(4) Post the Journal entry just made. This will leave the account of A. B. as follows :—

Dr. A. B.'s ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Sundries	100	0	0	Restoration	84	3	6
,, Incorrect Posting ...	84	3	6				
Correct Posting ...	83	4	6				

EXAMPLE (*b*) *wrong account.*

Posted £25 to the debit of X. Y. Z. instead of A. B.

(1) Make the correct posting.

Dr. X. Y. Z. *Cr.*		*Dr.* A. B. *Cr.*	
Incorrect ... £25		Correct ... £25	

(2) Make the incorrect Journal entry, to correspond with your inaccurate posting. Your posting was "X. Y. Z. *Dr.* To some other account." Let us call this latter "Blank account." Then the Journal entry will be—

X. Y. Z. *Dr.* £25
To Blank account £25

The above debit has already been posted; but not the credit; therefore post it.

(3) Make the neutralising Journal entry—

Blank account, *Dr.* £25
To X. Y. Z. *Cr.* £25

(4) Post this latter, when the accounts will stand—

Dr. X. Y. Z. *Cr.*		*Dr.* A. B. *Cr.*		*Dr.* BLANK. *Cr.*	
25	25	25		25	25 25

EXAMPLE (*c*) *wrong side.*

Posted £100 to the debit of A. B. instead of to his Cr.

(1) Make the correct posting (*i.e.* credit A. B.).

(2) Make the accommodating Journal entry—

A. B. *Dr.* To Blank account.

(3) Make the corrective Journal entry—

Blank account *Dr.* To A. B.

(4) Post this latter.

EXAMPLE (*d*) *reversal.*

Posted £50 to A. B.'s debit and C. D.'s credit instead of the reverse.

When the necessary entries and postings have been made the two accounts in the Ledger will appear as under.

Dr. A. B.'s ACCOUNT. *Cr.*

Feb. 7. To C. D.	£50	Feb. 28. By C. D. omitted Feb. 7 ...	£50
		,, ,, ,, Debit in error Feb. 7 ...	£50

Dr.	C. D.'s ACCOUNT.	*Cr.*
Feb. 28. To A. B. omitted Feb. 7 ...	£50	Feb. 7. By A. B. £50
,, ,, Credit in error Feb. 7 ...	£50	

(Work out Exercise LXXVIII

Complex errors.

Imagine that an entry in the Invoice Book—

W. Jones, *Cr.* By Sundries £111 2*s.* 6*d.*

has been posted to the credit of **E. Jones, £111 12*s.* 6*d.*** instead of as above. It was afterwards discovered that the Journal entry ought to have been £111 3*s.* 6*d.*

1. Make the Ledger agree with the Journal (*i.e.* with the Invoice Book) by making the credit posting in W. Jones's account £111 2*s.* 6*d.*

2. Make the accommodating Journal entry—

W. Jones, *Dr.* £111 12 6
To E. Jones, *Cr.* . £111 12 6

3. Post the above debit but not the credit.

4. Make the rectifying Journal entry—

E. Jones, *Dr.* £111 12 6
To W. Jones *Cr.* . . £111 12 6

5. Post the above.

We have now harmonised the Ledger with the books of original entry, but there still remains the original error of 1*s.* to deal with. This we do as follows:—

Goods account, *Dr.* 1 0
To W. Jones 1 0

For amount under credited in entry of April 17, Invoice Book folio —.

(Work out Exercise LXXIX.)

(*C*) *Rectification of Errors in casting, &c.*

(i.) In *Journal.* If the Journal has been under or over cast, the error can be corrected as below.

Erroneous total	£2,756	3	7
Add undercast	10	0	0
	£2,766	3	7

(ii.) In *Ledger.* If the Ledger account A. B. has been miscast, or the wrong amount brought on, but the account has not been balanced, it may be treated as above (in red ink with proprietor's initials).

But suppose the miscasting has led to an error in the balance, as below—

Dr. A. B.'s ACCOUNT. *Cr.*

	£		£
	184		50
	25	Balance	202
	18		
	35		
	252		252
Balance	202		

Then if the balance has been journalised to the debit of Balance account (Lesson VIII. page 123), treat this as an incorrect Journal entry needing correction by the rules already given, thus :—

A. B. Dr. To Balance account Cr. £10

and post accordingly.

But if no closing Journal entry has been made, enter in the Ledger (with proprietor's initials) on the *Dr.* side below the £202—

To undercast £10.

Then balance the account again.

(iii.) In *Cash Book.* Make the correction as in A. B.'s account above.

(iv.) In *Day Book or Invoice Book.* If the miscast is made before closing and journalising or posting the total, treat as a miscast in Journal total. Otherwise make one of these four Journal entries, posting only the debit or credit to "Goods."

(i.) *Goods Dr. To Sundry Debtors.*
For amount *overcast* in Day Book (folio —).

(ii.) *Sundry Debtors Dr. to Goods.*
For amount *undercast* in Day Book (folio —).

(iii.) *Sundry Creditors Dr. to Goods.*
For amount *overcast* in Invoice book (folio —).

(iv.) *Goods Dr. to Sundry Creditors.*
For amount *undercast* in invoice book (folio —).

EXERCISES ON LESSON XIX.

Exercise LXXVII.

The following erroneous entries have been made in the Journal, and such entries have been posted into the Ledger. How is the open Ledger to be set right through the medium of Journal entries to be posted into it?

INSTEAD OF	HAS BEEN JOURNALISED.
(*a*) Cash *Dr.* To Bank £1,000.	Bank *Dr.* To Cash £1,000.
(*b*) B. P. *Dr.* To Ed. White £2,000.	B. R. *Dr.* To Ed. White £2,000.
(*c*) Dallinger *Dr.* To Tea £3,009.	Dallinger *Dr.* To Tea £3,000.
(*d*) Cash *Dr.* To S. Bagster £4,068.	Cash *Dr.* To T. Bagster £4.608.
(*e*) John Watson *Dr.* To Ian Maclaren £100.	Ian Maclaren Dr To John Watson £100.

Exercise LXXVIII.

The following erroneous entries have been made in the Ledger, the Journal entries being correct. Rectify the errors by suitable Journal entries and postings.

	HAS BEEN POSTED
(*a*) Horton *Dr.* to Bank £100.	Correctly in Bank but not at all in Horton's Account.
(*b*) Raw Cotton *Dr.* To Farrar £200.	£200 to the debit of Cotton Goods and to the credit of Farrar.
(*c*) Sinclair *Dr.* To Cash £300.	£300 to the debit of Sinclair and to the credit of Bank.
(*d*) Cash *Dr.* To Bank £400.	£400 to the debit of Bank and the credit of Cash.
(*e*) Jones *Dr.* To Smith £68.	Correctly in Jones's account, but £86 in Smith's.

Exercise LXXIX.

Make out Ledger accounts showing rectification of the complex error explained on page 484.

Exercise LXXX.

(*a*) Does the double entry method necessarily prevent or detect every description of mistake in Bookkeeping? (Society of Arts.) Accompany your answer with reasons.

(*b*) Enumerate with examples errors that the Trial Balance would fail to detect.

Exercise LXXXI.

(Question 9 of Civil Service Paper, 1882.)

The following Journal entry of the Cash transactions of a firm was made at the end of a month, and duly posted:

Sundries *Dr.*... ... ... £532 6*s.* 4*d.*
To Cash ... ... £532 6*s.* 4*d.*

For Cash payments during the month, the several accounts having been debited through the Cash Book.

But in posting from the Cash Book the bookkeeper had omitted to debit goods with £23 3*s.* 6*d.*

State in what way the error would be detected in closing the accounts.

If there are more ways than one of detecting the error, state what they are.

State also how the error would be rectified.

Exercise LXXXII.

(Question 10 of Civil Service Paper, 1883.)

A Cashier received from W. Brown £60 in cash, acknowledged its receipt on behalf of the firm, and then purposely entered it in the Cash Book as £20 and pocketed the difference; but in order to prevent the discovery of his fraud by an application to W. Brown for the balance on his account still apparently due to the firm, he credits Brown's account with a further sum of £40, and refers to a page of the Journal where no such entry appears.

When and how would the Cashier's fraud be discovered? State also what entries and posting would be necessary to correct the error when discovered.

Exercise LXXXIII.

A dishonest clerk receives on account of his employer from W. James £335 16*s.* 10*d.* but enters in the Cash Book only £35 16*s.* 10*d.* and appropriates £300 to his own use. After the entry had been posted into the Ledger he alters the amount in the account of W. James to £335 16*s.* 10*d.* and falsifies an entry on the *Dr.* side of Goods account by turning £1,162 into £1,462. How would this fraud be indicated at Balancing, and what should be done to discover the precise entries which have been falsified?

LESSON XX

NON-CAPITALIST BOOKKEEPING

The principles of Bookkeeping are applicable quite as easily and quite as usefully to accounts of financial matters that do not involve an outlay of Capital with a view to profit, as they are to accounts where such an outlay is the chief feature of the undertaking, and its record the main object of the accounts being kept.

I propose in this lesson to notice briefly three classes of accounts of this description :—

(*a*) Executorship Accounts.

(*b*) Charitable Accounts

(*c*) Government Accounts.

I. EXECUTORSHIP ACCOUNTS.

When a person dies the total value of his pecuniary Rights, less the total value of his pecuniary Liabilities, gives the Net value of his **Estate.**

Property is divided by lawyers into two classes, *Real* and *Personal.* Real property consists of Lands, Houses, &c., (unmovable and nontransferable). All other descriptions of property are called personal.

It is important to notice that this legal distinction between Real and Personal property has not the slightest connection with the Book-keeping distinction between Real and Personal Accounts.

If the deceased person has left a Will, his "Estate" is managed and *the accounts kept* by the Executors named in the Will.

If a person dies **Intestate** (that is, not having left a Will), his Estate is managed and *the accounts kept* by an Administrator appointed by the Court of Probate.

The duties of an Executor and an Administrator are the same, and the accounts are kept in precisely the same manner.

The first duty of an Executor is to take the Will to the **Probate** Court and have the Will **Proved.** This establishes his right to act.

The *duties of an Executor* vary according to the terms and conditions of the Will. They may be summarised in general terms as follows :—

1. To realise the Estate.

That is, to turn all the Assets into Cash.

2. To discharge the Liabilities of the Estate.

These must be discharged in a definite order. For instance, Taxes and Rates take precedence of Trade Debts.

3. To pay general Legacies mentioned in the Will.

4. To invest certain sums for the benefit of certain persons.

5. To see that these persons have the Interest or Dividends which these investments yield.

6. To hand over the **Residue** to the Residuary Legatee.

The *Account books required* by an Executor are Cash Book, Journal and Ledger.

If an executor is required to carry on any trade or business for the benefit of certain persons named in the Will, of course the books of that Trade are required as usual in addition to, but quite apart from, the books of Executorship Account. The Trade Capital Account is at once

closed into an "Executorship Account," and the trade P. and L. balance carried to the same Account from time to time.

The manner of keeping these three books is the same as in ordinary Bookkeeping.

The Cash Book may be in the form recommended in Lesson XI., page 176, but there should be as few entries made in the "Cash" columns as possible.

Notice, however—

(1) *The opening Entries.* Entries must be made debiting the Assets at their estimated value, crediting the Liabilities, and crediting—not Capital Account, as in ordinary Bookkeeping, but **Estate Account** with the difference. Into this Estate Account must be brought all the gains and losses attendant on realisation, and all the funeral and administrative expenses.

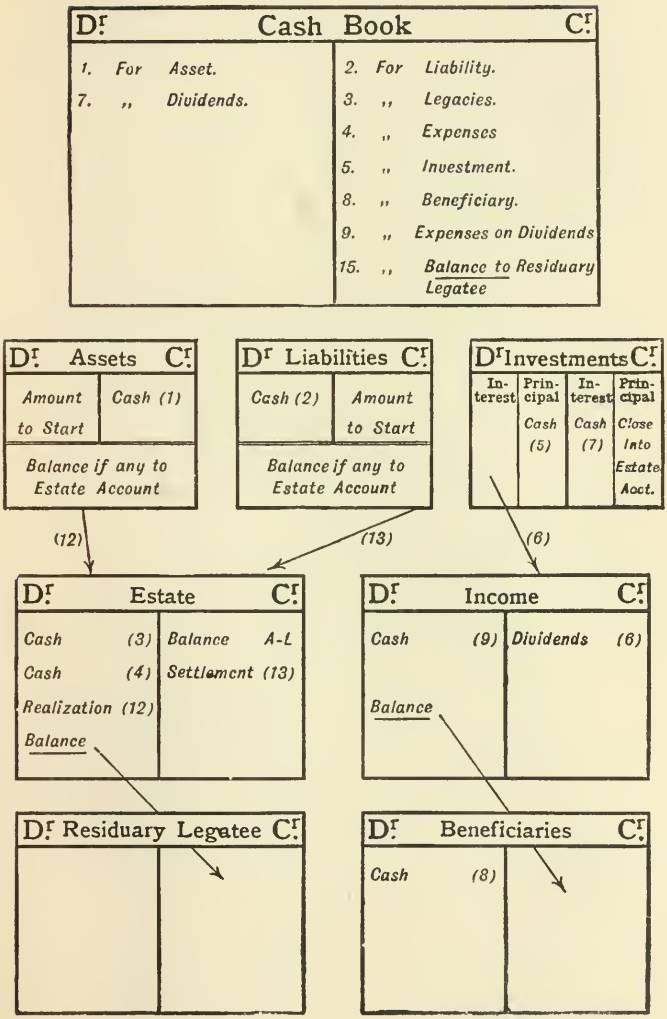
2. *The distinction between* **Estate account** and **Income account.** Income account is opened to receive, *on the Cr. side*, a record of all Interest, Dividends, and Profits accruing from time to time out of the Estate, *and on the Dr. side*, (i.) the expenses, if any, attendant on collection, &c.; (ii.) payments of the balance to the persons entitled under the Will to receive them, who are called **Beneficiaries.**

3. **Principal and Interest accounts.** Accounts of Mortgages, Stocks, Loans, &c., should be kept in double columns, like the Capital account shown on page 423; the Interest column being credited when Interest, &c., is *due* and debited when cash is *received.* As there would rarely be any great interval between these dates, these amounts need not be carried into the outer columns.

4. *Closing* and *miscellaneous entries.* Those entries that relate to Cash will not of course be Journalised, but I show them all in Journal form, as this is more convenient.

Dr.		TRANSACTIONS.	Cr.
Cash	(1)	When Cash is received for any asset	Asset.
Liability	(2)	When Cash is paid for any liability	Cash.
Estate	(3)	When Cash is paid for Legacy	Cash.
Estate	(4)	When Cash is paid for Expenses	Cash.
Investment (Pr. column)	(5)	When Cash is paid for Investment	Cash.
Investment (Int. col.)	(6)	When Interest on above falls due	Income a/c.
Cash	(7)	When Cash for the above is received	Investment (Int. col.)
Beneficiary	(8)	When above is paid to Beneficiary	Cash.
Income a/c	(9)	When Cash is paid for expenses of collection, &c.	Cash.
		CLOSING	
Income a/c	(10)	When Income Account is closed	Beneficiary.
Beneficiary	(11)	When Beneficiary's account is settled	Cash.
Estate	(12)	When Assets realise less than hoped for	Asset.
Liability	(13)	When Liabilities come to less than feared ... ... (and *vice versâ*)	Estate.
Estate	(14)	When Estate account is closed	Residuary Legatee.
Residuary Legatee	(15)	When Residuary Legatee's account is settled and Executor obtains RELEASE	Cash.

(Here work out Exercises LXXXIV., LXXXV., LXXXVI.)


Dr Cash Book Cr
1. For Asset.
7. ,, Dividends.
2. For Liability.
3. ,, Legacies.
4. ,, Expenses
5. ,, Investment.
8. ,, Beneficiary.
9. ,, Expenses on Dividends
15. ,, Balance to Residuary Legatee
Dr Assets Cr
Amount to Start
Cash (1)
Balance if any to Estate Account
Dr Liabilities Cr
Cash (2)
Amount to Start
Balance if any to Estate Account
Dr Investments Cr
Interest
Principal
Cash (5)
Interest
Cash (7)
Principal
Close Into Estate Acct.
(12)
(13)
(6)
Dr Estate Cr
Cash (3)
Cash (4)
Realization (12)
Balance
Balance A-L
Settlement (13)
Dr Income Cr
Cash (9)
Balance
Dividends (6)
Dr Residuary Legatee Cr
Dr Beneficiaries Cr
Cash (8)

II. CHARITABLE INSTITUTIONS.

The Cash Book is the chief book of account in Institutions of this kind. It is a mistake, however, to try and crowd everything into it for the sake of making the accounts look symmetrical, or for the sake of avoiding the use of a second book of original Entry.

In most Institutions there are some Liabilities due and unpaid on the day of balancing the books. To neglect these would be to exhibit the accounts in a misleading manner. On the other hand, to enter them in the Cash Book as paid when not actually paid would be wrong, even though the money should have been sealed up in an envelope, or the cheques *drawn, but not delivered.* Nor is it advisable to regard payments made subsequently to the day of balancing *as though* they had been made before the day of balancing.

All these are mere expedients for avoiding the use of a second book of original Entry. The occasions for the use of such a book may be very limited, but a book of some kind in addition to a Cash Book is in many cases advisable, and in some cases quite indispensable.

The chief skill, however, is shown in the management of the Cash Book, which should be ruled in columns so as to avoid unnecessary Ledger postings, and at the same time to afford all necessary information (i.) as to the particular **Sources** of the Income, and (ii.) as to the particular **Channels** of Expenditure.

It will be found useful in many cases to establish three Cash Books—

(*a*) Petty Cash Book.

(*b*) Daily Cash Book.

(*c*) Monthly Abstract.

(*a*) *Petty Cash Book.* This is of course supplementary to the ordinary Daily Cash Book, and may be placed in charge of any official whose duty it is to disburse small sums of money from time to time.

(*b*) *Daily Cash Book.* Let us suppose that the Income of The World-Wide Charitable Institution is made up of Subscriptions and Donations from all parts of the world, together with Interest and Dividends on Investments. It is desired to keep under separate headings the Contributions from Europe, Asia, Africa and America respectively, the proceeds of Investments, and the amounts received as fees from those recipients of the benefits of the Institution who are able to contribute something towards its support.

DAILY CASH BOOK (*Dr.* side only.).

April 30, 1895.

No.	Particulars.	Europe.	Asia.	Africa.	America.	Dividends.	Fees.	Total.
		£	£	£	£	£	£	£
	Brot. on	1,815	152	88	335	310	41	2,741
182	Subscriptions, &c. by post (see Subscription Book)..	72	18	15	36	...	...	141
183	Fee, Maria Jones	...	...	...	...	...	5	5
184	Interest, Mortgage B ...	...	...	...	...	90	...	90
185	House Collecting Box ...	3	...	...	...	...	...	3
186	Subscription, E. Carr ...	10	...	...	...	...	...	10
187	Bequest, A. J. W. ...	500	...	...	...	...	...	500
		2,400	170	103	371	400	46	3,490

The above Cash Book needs very little explanation. The entry "Subscriptions, &c." refers to remittances received by post which may perhaps be recorded in a subsidiary book for the sake of convenience. There is no objection to their being

entered direct in the Daily Cash Book, but I have avoided doing this in the example, as a long list of names is confusing. The Bequest £500 would probably be INVESTED in the course of a few days, and would then appear on the other side of the Cash Book. The serial numbers are useful for the purposes of reference or when giving a receipt.

Notice carefully that the separate items do not need posting, as in ordinary Bookkeeping, to the credit of the various "Givers." These persons are not "Creditors" of the Institution. Who then is? Cash comes IN and is "*Dr.*" Who or what is "*Cr.*"? The Institution itself. These funds have been given for the good of the Institution, and the Cashier credits the Institution with the proceeds.

It does not follow, however, that all funds are thrown together into one miscellaneous heap, and the grand total placed to the credit of "Institution Account." Indeed, we have already seen that columns have been ruled for the express purpose of analysing the receipts upon a predetermined plan, and the totals of these columns are the credits (corresponding to the one debit "Cash") which complete the Double Entry system, and enable the Institution to **Prove its Books.**

(*c*) *Monthly Abstract.* This book, although a Cash Book in form, is a Ledger in principle, for it receives both the debit and credit postings from the Daily Cash Book, and exhibits them in a complete and convenient manner, as in the example on the next page.

It will be seen that the total receipts *up to* the present month are collected in the first column. These are of course obtained from the Monthly Abstract of the preceding month.

The second column gives the total receipts for the current month, and the third column the total receipts up to *and including* the current month.

MONTHLY ABSTRACT (*Dr.* side only).

April, 1896.

	Jan.—Mar.	April.	Total.
	£	£	£
Europe	6,200	1,900	8,100
Asia	590	170	760
Africa	350	103	453
America	810	371	1,181
Dividends, &c.... ...	1,500	400	1,900
Fees, &c.	99	46	145
Bequests, 185 ...	1,000	...	1,000
,, 186 ...	250	...	250
,, 187 ...	...	500	500
	10,799	3,490	14,289

It is scarcely necessary to say that the various subheads will differ according to the nature of the Institution.

The Expenditure side of the Daily Cash Book and Monthly Abstract Book is arranged on similar principles. If the totals of the latter are gathered together in one account called "Institution Account," it would then appear in some such form as this.

Dr. INSTITUTION ACCOUNT. *Cr.*

	£		£	£
To Investments	1,750	By Balance		100
,, Current Expenses ...	12,400	,, Bequests	...£1,750	
,, Balance	239	,, Income	... 12,539	14,289
	14,389			14,389
		By Balance		239

If there were no current liabilities the above balance would consist entirely of Cash in hand. Investments are regarded as a separate matter. Special gifts or bequests for this purpose do not come under the head of current Income. They are Capital Receipts not Revenue Receipts, and for that reason are not usually entered in the ordinary Daily Cash Book. In the above account they have been separated to show the net amount of income and expenditure for the period.

(Here work out Exercises LXXXVII., LXXXVIII., LXXXIX.)

III.—GOVERNMENT BOOKKEEPING.

Government Bookkeeping comes under the head of Non-Capitalist bookkeeping. There are no accounts as in the case of a business firm to represent the chief of the Assets that form the Capital of the nation. There may be accounts of a supplementary nature representing certain minor assets such as "Miscellaneous Stores Account," but these are matters of detail. The national **Capital** is not recorded in the national Bookkeeping. Nor is it difficult to see why this is so. It would be impossible to estimate it with any approach to accuracy, extremely difficult to say under what heads it ought to be recorded, and there would be no advantage gained by the attempt to do so. All that the nation requires is a

Great National Cash Account,

and this is what the Chancellor of the Exchequer supplies in his Annual Balance Sheet. This Balance Sheet is not indeed a balance sheet in the ordinary meaning of the term at all. It is not a statement of Assets and Liabilities. It is simply a Cash Account presented in Abstract rather than in Chronological form showing Receipts or Revenue on one side, and Payments or Expenditure on the other.

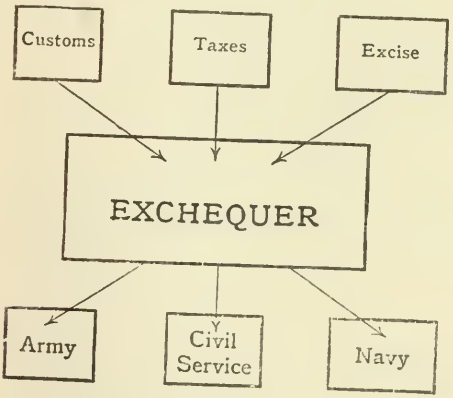
It will now be our business to examine and try to understand

the various channels through which the money flows from the time it leaves the pocket of the Taxpayer to the time it reaches the pocket of the Soldier, Sailor, or Policeman for whose "**Services**" the nation pays.

NOTE.—The three chief Services for which we have to pay are the Naval, Military and Civil Services.

We shall notice a clear distinction between the Revenue departments and the Spending departments, and shall pay special attention to the latter, which is the part Civil Service candidates are specially expected to understand.

All the money that is paid for taxes and other sources of Revenue finds its way sooner or later to the **Exchequer.** The Exchequer then distributes it in accordance with the wishes of the nation.



But what is the "Exchequer"? Is it a box or chest containing all the Queen's treasure? We read of such things as the King's treasure chest in history, but in modern times we know the value of money too well to lock it up in a box.

The actual money (or a certain fair proportion of it) is contained in the Bank of England, and the outward and visible sign of it—what we mean in fact when we talk of paying money into the Exchequer—is the "Exchequer Account" in the books of the Bank. This account forms the main bulk of the item "*Public Deposits*" which was explained in the Appendix to Lesson XI.

The persons who are responsible for all this treasure at the Bank of England are the "Commissioners of Her Majesty's Treasury." If you look in Whitaker's Almanack you will see their names and the salaries paid to each of them by the nation. The Prime Minister is First Lord of the Treasury and the Chancellor of the Exchequer is Under-Treasurer.

The benches on which members of the Government sit in the House of Commons are called the "Treasury" benches. John Bright in one of his most famous speeches parodied a verse from Gray's *Elegy* thus:—

> "For who, to dumb forgetfulness a prey,
> This pleasing anxious being e'er resigned,
> Left the warm precincts of *the Treasury bench*,
> Nor cast one longing lingering look behind?"

The Commissioners of Her Majesty's Treasury control the national cash account called Exchequer Account, that is, they control the national Expenses and the national cash receipts drawn out of John Bull's pockets in order to meet these Expenses.

But not according to their own mere will. By no means. They might take fancies into their heads and be led away by extravagant or fanatical notions into spending money in ways that turned out unpleasing and annoying to the owners of that money. They are themselves controlled by the wishes of the nation expressed by its own chosen spokesmen in Parliament, and their actions are minutely watched and checked by an office specially appointed for the purpose of seeing that they

do not in any way exceed the instructions they have received. This office is called the **Audit Office.**

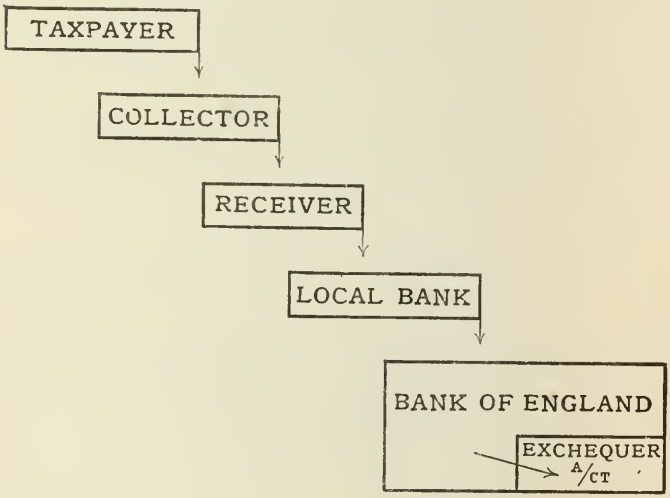
To assist Parliament in deciding what money to grant, the Chancellor of the Exchequer once a year submits to the House of Commons what is popularly called his **Budget.** The Budget is simply a scheme setting forth with much detail (i.) the *probable needs* for the various spending departments for the forthcoming year, and (ii.) the means by which he suggests that the necessary funds should be raised. The case is not at all like that of a private person whose income is the first consideration, and whose coat must be cut according to his cloth. John Bull's first question is what sort of a coat must I have, and the national tailor having taken his fit, and consulted the European fashion books (in the matter of armaments and so on), tells him he must have such and such a coat, and that accordingly he needs so many yards of cloth to make it. Thus you see Income (*i.e.* taxes) has to be stretched to meet Expenditure.

With respect to the Expenditure, the various spending departments have to prepare **estimates** for the ensuing year. These estimates are laid before Parliament and discussed sometimes with much fulness in *Committee of Supply.* The votes of this committee become law by annual Act of Parliament called the **Appropriation Act.**

The student will notice that this Act does pretty much the same work as the Appropriation Account noticed in Lesson XVII. (page 423). Certain funds are assumed to be waiting for division amongst certain persons or certain objects. The Appropriation Act defines these objects and *appropriates* so much to this object and so much to that.

Now suppose the whole business in Parliament settled. Let us see how the thing works. Take Income Tax as an example. First the taxpayer is called on by the *Collector*, and willingly or otherwise contributes his quota. The Collector. when his bag is full, or at stated times, pays over

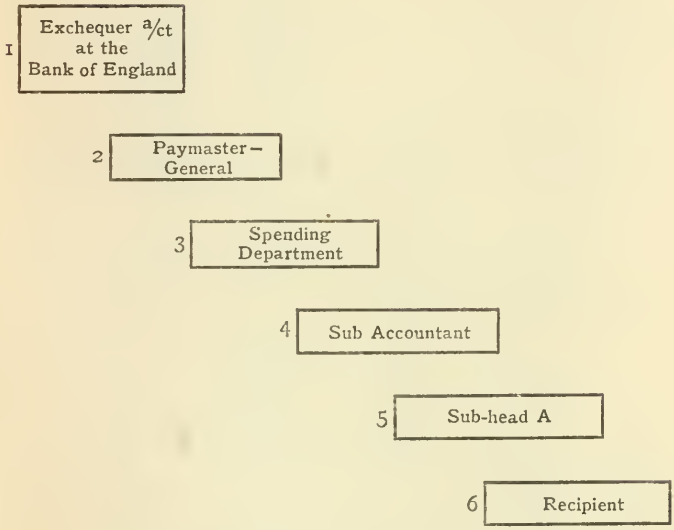
his takings to the *Receiver of Inland Revenue.* The Receiver of Inland Revenue pays the money to a local Banker with orders for it to be transmitted to the Bank of England, or he may send it to one of the various provincial branches of the Bank of England. The Bank transmits it (by a credit in their books) to the Bank of England. The Bank of England places the amount to the credit of "Exchequer account" or one of the subdivisions thereof. Thus it has found its way at last to the national Treasury chest



Watch for yourself the weekly returns of the Bank of England published every Friday in the daily papers and see how the item "Public Deposits" swells during the month of March. This is mainly taxation money, accumulating, ready for distribution to the various spending departments.

We might exhibit the OUTflow of the cash from the national cash-box to the pocket of the man for whose

services we pay, pretty much in the same way, as we did its INflow.

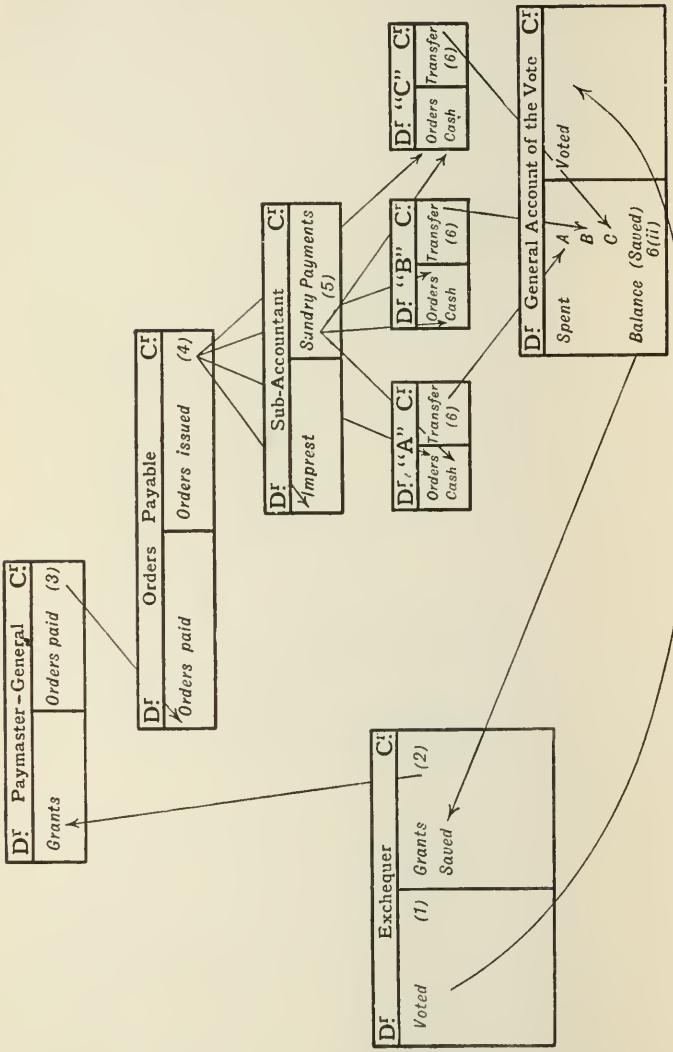


It concerns us chiefly however to notice the Entries made in the books of the Expending department (No. 3 above) with respect to the various processes involved, in the extraction of money from its resting-place in the Exchequer and its distribution and actual expenditure.

In order that you may understand this matter pretty thoroughly I will ask you to refer to the diagram on the next page whilst reading the remarks on certain statements given below.

1. *The Treasury notifies to the Department that the House of Commons have voted a particular sum, say £20,000, to the service of that Department.*

The Department on receiving this intelligence debits the Exchequer and credits an account in their own books headed


Dr. Paymaster-General Cr.
Grants
Orders paid (3)
Dr. Orders Payable Cr.
Orders paid
Orders issued (4)
Dr. Sub-Accountant Cr.
Imprest
Sundry Payments (5)
Dr. "A" Cr.
Orders
Cash
Transfer (6)
Dr. "B" Cr.
Orders
Cash
Transfer (6)
Dr. "C" Cr.
Orders
Cash
Transfer (6)
Dr. General Account of the Vote Cr.
Spent
A
B
C
Balance (Saved) 6(ii)
Voted
Dr. Exchequer Cr.
Voted
(1)
Grants
Saved
(2)

"**General Account**" or "*General Account of the Vote.*" This account bears some resemblance to an ordinary Profit and Loss account, only the Profit comes in one lump sum first and the Losses (or Expenses) follow. What becomes of the Balance we shall see by and bye.

2. *The Paymaster notifies to the Department that he has drawn (say) £10,000 of the above amount from the Exchequer.*

The Paymaster-General acts as a sort of Banker to the Department. He draws the money from the Exchequer and they draw it, as they need it, from him. They therefore regard this exchange as £10,000 IN to their *bank*, and £10,000 OUT from the Exchequer. They therefore debit Paymaster-General imposing responsibility on him and credit Exchequer releasing them from an equal amount of responsibility.

3. *The Paymaster-General notifies to the Department at the end of the month that during the month he has cashed "Orders" drawn upon him by the Department to the amount of £2,750.*

These Orders are simply cheques drawn by the Department on their banker the P.M.G. and so they represent £2,750 Bank OUT. The credit entry is simple enough. The debit entry to correspond is not so simple. To judge from the analogy of ordinary bookkeeping we might well suppose that this amount would be placed to the debit of the various subsidiary heads on account of which these orders had been granted. But these debits find their way into the books by another route. The entry *P.M.G. Cr. By Orders paid* finds its "corresponding debit" in an entry "*Orders payable Dr. To Orders paid.*"

The account "**Orders Payable**" is in reality an account of all cheques drawn by the Department on the Paymaster-General and is *debited* on receipt of the P.M.G.'s statement as above. We shall see by the next group of transactions how and when this account is *credited.*

4 *The books of the Department kept through the month show that they have issued Orders Payable as follows :—*

On account of Sub-head A.	2,000
On account of Sub-head B.	1,000
Advance for Office Cash	100

It has already been said that these Orders Payable are equivalent to cheques on a banker. Now when an ordinary firm draw cheques on a Bank, they credit the Bank indicating that money has gone OUT from the Bank. Why then do not the Department credit their Banker—the Paymaster-General—on the issue of these cheques? Because the usual custom is defective in this respect: cheques drawn do not represent money OUT until the cheques have been presented and paid at the Bank, and you will remember from Lesson XI., page 185, that from this cause there usually arises a discrepancy on balancing day (between the Business Cash Book and the Banker's pass book), which has to be accounted for by a "Reconciliation" statement.

If business houses were to follow the Government plan and open intermediate accounts for "cheques payable" and "cheques receivable" they would save the bother of Reconciliation statements. In the case before us, the intermediate account "Orders payable" is *credited* when the Orders are issued and debited (as we have already seen) when the Department hear that they are paid. Thus the balance of this account shows the account of "**Outstanding orders**," that is, of Orders issued to the public but not yet presented, and the amount of this balance represents a "liability" of the Department.

The debits that correspond with the credit entry to Orders Payable are indicated in the transaction itself, viz. :—

Sub-head A. *Dr.*	2,000
Sub-head B. *Dr.*	1,000
Sub-Accountant *Dr.*	100

In practice, they would of course be more numerous, as there might be many Sub-heads of Account some of them subsidiary to others, and advances might be made from one Sub-Accountant to another subordinate one and so on.

5. *The Sub-Accountant or chief clerk pays sundry small sums as under, viz :—*

On account of Sub-head A. 20
On account of Sub-head B. 30

The account called Petty Cash in an Office is here called Sub-Accountant. The Journal Entry is of course :—

Sub-head A. *Dr.* 20
Sub-head B. *Dr.* 30
To Sub-Accountant 50

6. *Closing the books.* (i.) The various subsidiary accounts are all closed into the General Account, just as in ordinary bookkeeping Subsidiary accounts are closed into P.andL. (ii.) General Account itself is closed into Exchequer Account, just as P.andL. is closed into Capital Account.

Notice that the General Account has already been credited with the full amount of the vote, and as the Department are not allowed to spend *more* than this, there will (almost) always be a credit balance. This of course represents the amount of "Savings" during the year. Not savings in the sense of surplus money earned over money spent, but savings in the housekeeper's sense of surplus money allowed for household expenses over money spent for ditto.

[The distinction is not altogether without significance. The first kind of saving is an unqualified source of satisfaction (financially speaking). The second may be tempered by the reflection : Perhaps after all I made my housekeeper, national or otherwise, too liberal an allowance !]

7. *Extra Receipts.* Money received by any Department for sale of old Stores or for any extra receipts of this kind must not be quietly taken by the department and used to assist their ordinary expenses, that is, to make them *appear* less than they are in reality. Such receipts are paid into the Exchequer under the head of "*Extra Receipts on Votes of Parliament.*"

EXERCISES ON LESSON XX.

Exercise LXXXIV.

(i.) (Chartered Accountants' Intermediate, June 1893.)

How would you distinguish between Real and Personal Estate?

(ii.) (Chartered Accountants' Final, December 1894.)

State what books you would provide for keeping Executorship accounts and describe the opening entries.

Exercise LXXXV.

Suppose that on the death of Claude Abbott you are left as sole executor to his will and property, divisible equally between two sons and two nephews. For your services 25 guineas. His effects consist of

Cash in Bank,
Guaranteed Ordinary Shares in the G. E. Railway,
Household Furniture,
Copyrights of Books, &c.

The whole to be converted into Cash as soon as possible and distributed. There are no creditors.

Sketch out the whole of your proceedings as Executor, and show pro formâ Accounts.

Exercise LXXXVI.

(Chartered Accountants' Final, December 1894.)

G. H. died on the 1st November, 1893. His estate consisted of Household Furniture and Effects, valued at £300, given to his widow absolutely; a Mortgage of Freehold premises to secure £3,000 bearing interest at 4 per cent. (a half-year's interest was due and received 1st February, 1894), and Patent Rights producing £300 a year sold for £6,000, the purchase money, together with one year's licence then due, being received on the 1st of

March, 1894. Payments were made for funeral expenses £50, probate and testamentary expenses £70, executorship expenses £80, and debts owing by testator at his death £300. The balance of corpus realised was invested on the 5th March in Consols, bought (including commission) at par. Write up the accounts and make out a balance sheet as on the 31st March, 1894, omitting Income Tax deductions.

Exercise LXXXVII.

(Chartered Accountants' Final, Dec. 1891.)

Give a form of Cash Book adapted to save the labour of posting and suitable for a Charitable Institution whose income is chiefly derived from Subscriptions, Donations and Investments. Write specimen entries not exceeding eight on each side.

Exercise LXXXVIII.

(Chartered Accountants' Intermediate, June 1893.)

Show the rulings and headings which you would adopt for the Cash Book of a Charitable Institution, having Income from Subscriptions, Legacies, Capital Donations, and Payments from Inmates, and Expenditure on Building, Maintenance, and usual expenses, also insert five transactions on each side.

Exercise LXXXIX.

Draw up Daily Cash Book for April 30 and Monthly Abstract for April (Payments side only) similar to those on pages 496, 497, arranging Payments under the four following subheadings: Food, Fuel, Assistance and Shelter, Rent and Sundry Office Expenses. The total expenditure up to and including April 29 had been, on account of Food, £1,595; on account of Fuel, £899; on account of Assistance, £780; on account of Rent, &c., £16. The totals for April 30 were, on account of Food, £50; on account of Fuel, £29; on account of Assistance, £19; on account of Rent, £30. You are required to fill in imaginary particulars. The total expenditure from Jan. 1—Apr. 30 is to be £13,912.

Exercise XC.

(Civil Service, 1882.)

In a Government Department administering several votes, but having a single account for "Orders Payable," the following Journal entry was made

at the end of a month, and the sums were posted to the accounts specified in the Journal :—

Salaries, Vote 2 *Dr.*	£30 0 0	
Travelling, Vote 2 *Dr.*	11 5 6	
To Orders Payable		£41 5 6

But the orders on the Paymaster-General were wrongly drawn, the salaries being payable out of Vote 1, and the Travelling out of Vote 3.

Give the Journal entry necessary to correct the books of the Department.

Exercise XCI.

(Civil Service, 1881.)

1. What should be the entries of a Government Department for the following transactions?

1881.	£	s.	d.
Mar. 27. Savings on 1879—80 surrendered	61	1	2
Apr. 15. Advice received from Treasury that £30,000, the amount of the Vote, is now available.			
,, 30. Issued order on Paymaster-General for Salaries for the month	1,500	7	6
June 30. Paid to Exchequer the amount of fees received in Cash	17	11	6

Exercise XCII.

(Civil Service, 1879.)

Journalise the following transactions of a Government Department :—

1879.

April 4. Vote on account 8,500 0 0

,, 30. Paymaster-General's account received as follows :—

	£	s.	d.		£	s.	d.
To Balance, 1.4.79 ...	969	3	3	By Payments as per list below ...	2,697	2	9
,, Exchequer supplies, year 1879—80, received during month	3,000	0	0	,, Balance, 30.4.79	1,285	8	1
,, Extra Receipts during month ...	13	7	7				
	3,982	10	10		3 982	10	10

May 20. Vote taken for balance of Estimate	25,000	0	0
June 1. Surcharged by Comptroller and Auditor-General on account to 31.3.79 unauthorised payment to John Smith. (Sub-head A.)	7	11	6

INDEX AND GLOSSARY OF TECHNICAL TERMS

NOTE.—Those terms not explained in the text are printed in italics.

A

Abatement, 113
Accept, Acceptance, &c. (a/ce), 228, 229
Accommodation Bills, 231
Account (A/ct), 15, 108
Account Current, statement of a running *Dr.* and *Cr.* account, with full details.
Account Sales (A/s), 322, 325, 326
Ad valorem duty, 227
Adjustment, 70, 118, 134, 290, 291
Adjustment, the settlement of a loss in marine insurance.
Advice, advising, 229
Advance on A/ct, 332
Advances Account, 289
Adventures, 301, 317–334
Agent or Factor, 317
Agio, difference in value between gold and paper currency in those countries where notes are not exchangeable for gold as in England.
Allotment, 440
Annuity, a sum of money paid yearly, 373
Applications, 440
Appropriation Account, 423, 458, 460, 501
Arbitration of Exchanges, 273, 274
Arrears, balances of overdue and unsettled accounts.
Articles of Association, 433
Assaying Office, 209
Assets, 3, 8, 64, 86, &c.
Assignee, the party to whom certain property is made over, usually for a specific purpose. For example, the property of an insolvent debtor, for the specific purpose of realising and distributing amongst the creditors.
Audit Office, 501
Auditor, an examiner of accounts.
Automatic Day Book, 393
AVERAGE (*Marine Insurance*)—
(a) *Particular Average*, the proportion paid by each insurer to the owners of property when part has been lost or damaged at sea.
(b) *General Average*, the proportion paid by the owners (or insurers) of the ship, freight, and cargo, to the owners of property that has been sacrificed for the general safety.

B

Backwardation, the rate paid by speculative sellers on the Stock Exchange for an extension of time in which to fulfil their contract.
Bad Debts, 51, 115–118, 291–294, 395
Bad Debts Reserve, 142, 159, 292
Balance, 15, 24, 119
Balance Account, 119, 123, 126

Balance Sheet, 61, 71, 133, 153
Balance Sheet, Form of Company, 436
Balancing Accounts, 24–26, 186
Bank Account, 188
Bank Act of 1844, 206
Bank Bill, a bill of exchange issued by a bank.
Bank Notes, 163
Bank of England, 204–219
Bank Pass Book, 187, 194, 239
Bank Post Bills, 214
Bank Rate, 217, 219
Bank Return, 207, 211
Bankrupt, a person who, being unable to pay his legal debts, has his total assets seized and distributed amongst his creditors in partial satisfaction of their claims, after which he usually receives a "certificate of discharge," relieving him from further liability. [See also "*Insolvent*."]
"*Bear*," one who sells stocks and shares of which he is not possessed in order to force the prices *down*. [Mem. *Bear down*.]
Bill Broker, 259
Bill of Lading (B/L), 323, 324
Bill of Exchange, Lesson XII.
Bill of Sale, a document establishing the right to sell goods given as security for a loan.
Bills Payable, 83, 194, 252
Bills Receivable, 83, 194, 248–251
Blank Cheque, 226
Blank Endorsement, 229
Boarding-house Accounts, 380
Bond, a document imposing obligation to pay money, or to perform a contract.
Bonded goods, goods kept in the Custom House until "duty" has been paid.
Book Debts, 155, 277
Bookkeeping, 2, 10, &c.
Bottomry, a mortgage on a ship.
Bought Ledger, 192, 305
Broker, an agent who transacts business for his principal at a fixed rate per cent. called *brokerage*.
Bull, one who buys stocks and shares for the mere purpose of forcing the prices *up*. [Mem. Toss *up*.]
Bullion, 209
Business Premises, 363

C

Call Book, 446
Calls, 449
Called-up Capital, 439
Capital, Lessons III. and X., and throughout the Manual
Capital (Fixed), Lesson XV.
Capital Accounts (concurrent), 419
Capital Account with Interest columns, 421
Capital of a Company, 438, 439
Cash, 3, 4, 22, 155, and Lesson XI.
Cash Account, 165, 185
Cash Book, Lesson XI.
Cash Credit, permission granted by a banker to draw cash as may be desired, up to a fixed limit.
Cash Purchases, 302
Cash Sales, 306
Charges, 319, 339
Charitable Institutions, 494–497
Charter Party, a document relating to the hiring (or chartering) of a vessel for the freightage of goods.
Checks on correctness, 416, 471, 477
Cheques, 162, 163, 226, 227
Circular Note or Letter of Credit, an authority to draw money at various places, issued by banks for the convenience of persons travelling.
Circulation (Note), 207, 208
Civil Service Journal, 78
Classification of Ledger Accounts, Lesson III.
Classified Journal, 80, 82, 166–170
Clearing House, an office in Lombard Street, where the representatives of the principal London Banks meet to exchange cheques, the balance of indebtedness by

each bank to all the others (or *to* each bank *by* all the others) being settled every day by a draft on the Bank of England. Suppose, for instance, there are five banks, and that the figures in the table below represent *thousands*—

	A.	B.	C.	D.	E.	TOTALS demanded *from* each bank.	Less contra.	Balances adverse.
	Present cheques and demand payment.							
on A	—	2	4	5	6	17		
on B	3	—	9	12	2	26	−15=	11
on C	18	4	—	14	16	52	−37=	15
on D	6	1	16	—	11	34	—	—
on E	11	8	8	15	—	42	−35=	7
Totals demanded *by* each bank	38	15	37	46	35			
Less contra	17	—	—	34	—			
Balances in favour	21	+		12	=			33

Then it is clear that if A and D *receive* £21,000 and £12,000 respectively, and at the same time B, C, and E pay respectively £11,000, £15,000, and £7,000, all claims will be satisfied and all responsibilities discharged by these five cheques; whereas if each bank settled with each of the others separately, twenty distinct settlements (5 × 4) would be required.

Closing Entries, 122
Collateral Security (a second or additional security), 324
Collective Accounts, 138
Columnar Accounts, 137, 313–315
Combined Accounts, 137
Commission (fees charged by agents), 111, 317, 321, 325, 394, 397
Company Act, 432
Company Bookkeeping, Lesson XVIII.
Company Balance Sheet, 436
Composition, 51, 115
Consignee, Consignor, 318
Consignments, 317–328
Consols; various loans to successive Governments at varying rates of interest were amalgamated or *consolidated* into one Fund at a uniform rate of interest in 1753. This consolidated fund is called *Consols* for shortness
Contango, the rate paid by speculative *buyers* on the Stock Exchange for an extension of time in which to complete the bargain.
Contingent Liabilities, 141, 229, 239, 244
Contra, against, on the other hand.
Contra Account, 297
Contracts, 346
Cost of production, 335
Cost price, 315
Counterfoil, 228
Country Notes, 163
Coupons, small slips of printed paper attached to bonds, and entitling the holder to interest. When due they are *cut off* (*couper*) and presented for payment.

Course of Exchange, 259, 270, 271
Credit, confidence or trust in financial matters (8)
Credit Sales and Purchases, 302, 307
Creditor (*Cr.*), 15, 17–24, 115
Crossed Cheque, 227
Currency, money, see Lesson XII.
Current Account, 56, 322, 323
Customs, duties or taxes payable (at the Custom House) on imports and exports.

D

Day Book, 83, 102, 287, 307–311, 393
Days of Grace, 227
Dead Weight Expenses, 336
Debentures, 451, 452, 453
Debtor (*Dr.*), 15, 17–24, 115
Debts, 3, 4, Lesson XIII.
Debts Payable (D.P.), 41, 42, 143, 287, 288
Debts Receivable (D.R.), 3, 41, 42, 118, 155, 192, 278, 287, 288
Deficit, an adverse balance, a sum of money short, a deficiency.
Deferred Shares, 451
Del Credere, 325
Demurrage, payment for detention of a vessel in port
Deposits, 211, 212, 289
Depreciation, 312, 362, 364
Derelict, a ship that has been abandoned
Destination columns, 189–193
Detail columns, 142, 143, 144, 194
Detection of errors, 472
Diary, 253
Direct Exchange, 272, 274
Discount, 113–115, 230, 282–284, 295, 395
Discount columns, 168, 169
Discounting Bills, 230, 235, 237
"at a discount" (= below par), 262, 264, 266
Discounts, Reserve for, 296
Dishonouring Bills, 230, 241
Dissolution of Partnership, 424
Distraint, seizure of goods for debt.
Dividend, 116, 461
Division of Profits, 421
Dock Warrants, receipts for goods deposited in the dock warehouse, frequently endorsed from one holder to another, like bills of exchange.
Domiciling a bill, 228, 235
Double Account system, 462
Double Entry, 10, 11, 27–31, 126, 127
Double Error, 12, 475–477
Doubtful Debts, 291–294
Draft, 227
Drawer, Drawee, 227
Drawings, Drawing Accounts, 157, 420, 421
Due Date, 227
Duty, a tax on imports and exports

E

E. and O.E., 319. The expression "errors and omissions excepted" indicates that mistakes are open to subsequent correction.
Endorsement, 229, 234, 235, 246, 324
Errors, Lesson XIX.
Errors, How to Localise, 189, 471, &c.
Errors in the Journal, 12, 478
Errors revealed by Trial Balance, 104, 470
Establishment Charges, 335
Estate Account, 491
Exchanges, Lesson I.
Exchequer, 499, 500
Exchequer Bills, Promissory Notes issued by Government.
Executorship Accounts, 489
Expenditure side of "Revenue Account," 457

F

Factor, an agent.
Farm Accounts, 339
Fictitious Accounts, 33, 35, 52

Firm, partners in business. [The expression "*the House*" refers usually to the establishment regarded from a business standpoint; the expression "*the Firm*" usually refers more particularly to the proprietors.]
Final Balance, 108, 128, 146
Fixed Capital, 41, 42, Lesson XV.
Floating Capital, 41, 42
F. O. B. = Free on Board. This term indicates that goods sold at the price quoted are placed on board the vessel free of all extra charge for so doing.
Folio, literally a folded sheet of paper, but the term is now used in Bookkeeping either for a page or an opening.
Folioing, 91, 92
Foreign Banker, 262
Foreign Bill, 225
Foreign Exchanges, 223, 259–274
Freehold Premises, 156
Freight, cost of the conveyance of goods by ship (319)
Funds, debt due by Government not repayable. [NOTE.—The distinction between the Floating Debt and the Funded Debt is similar to the distinction between Debenture Bonds and Debenture Stock, see page 453.]

G

Gains, 9, 52, 62, 119
General Personal Accounts, 287, 288
Gold, 162, 163, 209
Goods, 3, 4, 122, Lesson XIV.
Goodwill, 156, 158, 423
Government Bookkeeping, 498–508
Government Security, 205, 217
Grace, Days of, 227
Gross, the full amount without deduction
Gross Profit, 53, 69, 311, 315
Guarantee, 423

H

Honouring a Bill, 230
Hire Purchase, 348
Hotel Accounts, 381
House Property, 365
Hypothecate, pledge, mortgage.

I

Impersonal Accounts, 34
Imprest system, 180
"In case of need," 230
Income Tax Returns, 419
Index, 92
Indirect Exchange, 272, 273
Individual Personal Accounts, 278–286
Indorse (see Endorsement)
Inland Bill, 224
Insolvent, 40, 115; see also *Bankrupt*. [NOTE.—A man may be insolvent without any one else being aware of the fact; he may not even be aware of it himself! But if he is a *bankrupt* the fact is publicly announced.]
Instalments, successive payments of parts of a sum due.
Insurance, 112, 319, 395, 397
Interest, 212, 280, 315, 325, 394, 397
Interest on Capital, 419
Intermediate checks, 415
Investments, 155, 461, 462
Invoice, 304, 319
Invoice Book, 83, 102, 287, 303, 310
I. O. U. = I owe you
Irregular Endorsement, 246
Issue, 206–211, 215
Issued Capital, 439
Italian Journal, 75

J

Joint Adventures, 329, 334
Joint Note, 226
Joint Stock Account, 418
Joint Stock Companies, 432
Journal, 29, 80, 96, 102, 165, 166

Journal, Synoptical, 393
Journalising, 74

K

Kilogram, 261
Kite (accommodation bill), 231

L

Labour, 340
Lac or *lakh*, a lac of rupees = 100,000 rupees. [Notice the position of the comma in writing down rupees. For example, "a million rupees" would be printed "10,00,000," which reads: ten lacs of rupees.]
Lame Duck, an insolvent member of the Stock Exchange.
Leasehold property, 369
Ledger, 11, 55, 65, 83, 97–100, 192
Ledger, private, 410
Legal tender, 163
Letter of Credit, Letter of Advance, a letter authorising an advance of cash in favour of some person specified, a copy of whose signature is enclosed.
Liabilities, 2, 8, 64, 86, 122, 141, 151, 152
Liabilities due and not paid, 394, 396
Limited Liability, 432
Liquidation Account, 424, 425
Long Exchange, 267, 268
Loss, 9, 119, 395

M

Maker of a note, 227
Making up method, 26
Manifest, a statement of particulars of a ship's cargo.
Manufacturer's Accounts, 335
Marine Insurance, 319
Maturity, 229
Medium of Exchange, cash and bills of exchange. [Exchange is now frequently effected by the medium of "credit."]
Memorandum of Association, 433
Merchandise, 41, 42, 301
Mint, 209
Mint par of exchange, 261
Mixed Accounts, 131, 140
Money, Lesson XI.
Months after date (m/d), 227
Mortgage, property that has been pledged.

N

Narration, 75
National Debt, 205
National Reserve, 216, 218
Negotiable, documents that confer a legal right to money or property are called "negotiable," when their transfer from hand to hand involves the transfer of the legal right. Thus bank notes and bills are negotiable. Cheques also are negotiable unless they are crossed, or unless the words "not negotiable" are written across the face. (227, 237)
Net, clear of all deductions.
Net Proceeds (N/P), 325, 326
Net Profit, 53, 64, 119
"No orders," 241
Nominal Accounts, 33, 34, 44, 52, 56
Nominal Capital, 348
Notary public, noting a bill, 230
Notes, 163

O

Office Cash, 180
On Open Account, 277
Open policy, 320
Opening the Ledger, 61
Overdrawn Account; an overdrawn account at a bank is one in which the depositor has drawn out more money than he has lodged in the bank. This takes place, (i) very rarely, by oversight of the bank clerks; (ii) by arrangement with the bankers, and deposit of deeds or other satisfactory security; (iii)

Scotch banks are in the habit of granting to respectable persons (on being suitably recommended) permission to "overdraw" to a fixed limit, though they may not have deposited any cash. These overdraws are called "*Cash Credits.*"

P

Paid-up Capital, 439
Panic, 206, 218
Par, stocks and shares are said to be at "par" when the price of £100 *stock* is exactly £100 *cash*. If above this price they are *at a premium;* if below, *at a discount.*
Par of exchange, 261
Partner, admission of, 423
Partner's Drawing Accounts, 157
Partnerships, 418–426
Pass Book, 187, 194, 239
Payee, payer, 230
Pecuniary rights, 2
"Per pro." = per procuration: see "Procuration"
Percentages, 315, 339, 362
Personal Accounts, 33, 44, 48-51, 278-298
Personal Expenses, 380
Petty Cash, 110, 180
Plant (machinery and other property used in carrying on a business), 359, 368
Policy, 320
Posting, 74, 90–94
Posting errors, 480
Preference shares, 450
Preferential claim, 423
Preferential creditors, 154
Preliminary classification, 81
Preliminary expenses, 158, 438
Premium, 319: see "*Par*," also "Insurance"
Premium, bills at a, 262, 264, 266
Presentation of a bill, 228
Primage, a small charge made for the captain's care and trouble in supervising the loading and unloading of a cargo of goods: see "Bill of Lading."
Private Account, 56
Private expenses, 112
Private Ledger, 192, 287, 289, 408, 409
Private Ledger Account, 411, 412
Proceeds, the amount realised by a sale of goods.
Procuration, authority for one person to act on behalf of another.
Production of Goods, 335
Professional Bookkeeping, 387
Profit, 315, 316
Profit and Loss, Lesson XVI.
Profit on Cash basis, 388, 392
Profits, division of, 421, 422
Promissory note, 225
Prompt, a written agreement between merchant and shipper of the purchase and sale of certain goods at a fixed future date, the goods to be paid for promptly on the date named, or on delivery, if delivered previously.
Property, 3
Property Accounts, 41, 47, 66, 111, &c., &c.
Property Revenue Account, 366
Proprietary Accounts, 43, 52-56, 159, &c.
Pro rata = (proportionally), 421
Prospectus, 439
Protecting a signature, 230
Protesting a bill, 230
Proving the Books, Lesson V. and throughout
Public Deposits, 211–213, 216
Purchase Account, 438, 449
Purchases Ledger, 192, 193

Q

Qualified Acceptance, 229
Quantity Columns, 313, 314

R

Railway Accounts, 462, 463
Rate of Exchange, 259-270
Real Accounts, 33, 34, 35, 44, 47, 48

Realisation of Assets, 116
Realisation Account, 424
Rebate, 230, 240, 255
Receipts: (i.) Moneys received; (ii.) written acknowledgments of money received.
Reconciliation, 187, 294, 295
"Refer to Drawer," 241
Rectification of errors, 477, 478
Remittance, money or bills *sent* from one person to another.
Renewing a bill, 230, 241
Rent, 365, 395
Reserve Accounts, 141, 142, 159
Reserve Fund, 215
Rest (Bank of England), 215
Repairs, 365
Retiring a bill, 230, 237–240
Returns, 288, 309
Revenue, 39, 139, 368
Revenue Account, 455, 459
Reversal of figures, 473
Royal Exchange, 259

S

Sales, 6, 306–311, 318
Sales Ledger, 192, 193
Sans Recours, 229
School Accounts, 385
Scrip, receipt given for the shares of a company until the share certificates are ready for delivery.
Securities, 324
Selling Price, 315
Sequestration, Scotch term for bankruptcy
Services, 5, 7, 9, 118, 378, 379, 387
Settling Days, certain days appointed for the fortnightly settlement of mutual claims on the Stock Exchange
Seven-day bills, 214
Share Ledger, 444
Shares, 439, 450
Short Exchange, 267, 268
Sight draft, 230
Single entry, 10, 11, 28, 85

At this point in the compilation of the Index the author pauses conscience-stricken. He has allowed his annoyance with "Single Entry" so far to run away with him, that he has supplied no respectable answer to the time-honoured examination question, *What is Single Entry?* Perhaps this would please the Examiner:

Single Entry is that defective and incomplete method of account-keeping which neglects to record at any stage of the work the double effect of some or all of the transactions of the undertaking. The effect of this neglect is that the only way of ascertaining the net gain or loss for any given period is to compare the balance sheet at the beginning and end of that period; and even this method breaks down when the proprietor has failed to keep his private expenses distinct from his business expenses.

Sinking Fund, a fund set apart (and allowed to accumulate) for a special purpose (373)
Sold Book = Day Book, 307
Solvent, 40, 71
Special endorsement, 229
Specialised Accounts, 345
Specie point, 263, 264
Speculative profits, 378
Spurious Assets, 157
Spurious Liabilities, 159
Stamp duty, 227
Standard gold, 209, 261
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Stock Account, 36, Lesson XVII.
Stock-in-Trade, 156, 302
Stocks and Shares, 366
Stocktaking, 70, 312, 313
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Subsidiary Accounts, 109, 119, 137, 322
Sundry Debtors and Creditors, 192
Sundries, 93
Suspense Accounts, 135, 136, 296

T

Tabular method, 144-146, 308, 380
Take up, 230
Tare, a deduction from gross weight for cases, packages, waggons, &c.
Tenders, 452
Trade Expenses, 111, 113, 396
Trade Ledger, 289
Trade Ledger Account, 409, 410
Trading Account, 339
Transactions, 4
Transfer, 290, 296
Transfers, 446, 456
Treasury, 500
Tret, an allowance of 4 lbs. on 104 lbs for deterioration during transit
Trial Balance, 101, 119, 122, 406
Trial Closing, 120, 122
Trial Proof, 94
True Discount, 113, 282, 315

U

Underwriters, 320
Usance, 227

V

Valuation, 311-316, 361
Value of Stock, 69, 156, 302
Valued Policy, 320
Vendors, 449
Voucher, a paper proving or *vouching for* the correctness of an entry in the books.

W

Wages; wages that increase the value of goods should be entered to Goods or Trading Account, but wages paid for unproductive labour should be entered to Trade Expenses or Profit and Loss Account (see Lesson XIV.)
Warehouse Book, 313
Waste Book, a book containing a chronological record of business transactions.
Weekly Return, 207
Working Accounts, 139, 140
Working Expenses, 396

ANSWERS TO EXERCISES

PART I

No. of Exercise	Page of Manual.	ANSWER.
III. 7	58	*Balances:* A, £950 *Dr.*; B, £335 *Dr.*; C, £1,490 *Dr.*; D, £540 *Cr.*; E, £65 *Dr.*
III. 8	59	T.E. £30; N.P. £14; Capital £3,994.
V. 13	72	Net Profit £374, Total Assets £8,124.
VII. 11	106	Total Postings £2,593 9*s.* 4*d.*; Balances £2,072 4*s.* 2*d.*
VII. 12	106	Postings £4,136 1*s.* 5*d.*; Balances £1,233 5*s.* 0*d.*
VII. 13	107	£7,800.
VIII. 17	130	Stanford £943 1*s.* 11*d.*; Mills £1,002 8*s.* 1*d.*

PART II

LESSON IX.		
1	147	Capital £721; Suspense Account £15.
2	148	Net Profit £183 15*s.* 6*d.*; Capital £3,685 15*s.* 6*d.*; Cash £84 7*s.* 0*d.*; Gross Profit £215 11*s.* 6*d.*
3	150	Cash £897; Net Loss £30; Capital £6,180.
LESSON X.		
5	160	Assets £10,690 2*s.* 10*d.* or thereabouts; Liabilities £21,327 2*s.* 9*d.*

No. of Exercise.	Page of Manual.	
	LESSON XI.	
6	200	Office £25; Bank £394.
7	200	Cash £549 1*s.* 6*d.*; Capital £2,129 16*s.* 4*d.*
8	201	Cash £745; D.R. £430; D.P. £567; Capital £3,148.
9	202	Cash £700 8*s.* 4*d.*; Discounts *Dr.* £1 4*s.* 9*d.*; Discounts *Cr.* £9 11*s.* 4*d.*
10	202	Cash £726 12*s.* 10*d.*; B.R. £988 11*s.* 8*d.*; Gross Profit £1,125 6*s.* 4*d.*; Capital £8,041 7*s.* 0*d.*
11	220	Issue Department, Totals £48,132,180; Banking Department, Totals £57,794,103; Proportion of Reserve to Liabilities 63·28 per cent.
	LESSON XII.	
12	256	B.P. £900; B.R. £1,373; Capital £2,052.
14 (2)	257	(1) Duval *Dr.* To Smith; (2) Meyer *Dr.* To B.P.; (3) B.R. *Dr.* To Meyer.
15	257	B.R. £2,000; Capital £2,896.
16	257	First Bill £506 5*s.* 0*d.*; Second Bill £260 14*s.* 11*d.*
17	258	*Smith's Books:* Brown *Dr.* £5,305 15*s.* 6*d.*, To Garfield £5,300, To P.and L. £5 15*s.* 6*d.*; Bank *Dr.* To Brown £5,300; Garfield *Dr.* To B.P. £2,143 17*s.* 2*d.* *Garfield's Books:* Smith *Dr.* To Brown £5,300; B.R. *Dr.* To Smith £2,143 17*s.* 2*d.* *Brown's Books:* Smith *Dr.* To Cash £5,300; Garfield *Dr.* £2,143 17*s.* 2*d.*; P.and L. *Dr.* £5 15*s.* 6*d.*; To Smith *Cr.* £2,149 12*s.* 8*d.*
18	274	He will lose £82.
20	275	(i.) He will save $151·20 by the Indirect Exchange. (ii.) He would lose 178·57 marks by the Indirect Exchange.
21	275	1 fr. 23½ c. for 1 mark.

No. of Exercise.	Page of Manual.	
LESSON XIII.		
22	298	Sundry Debtors £138 16*s.* 10*d.* ; Sundry Creditors £130 0*s.* 11*d.*
23	300	Debts Payable £2,089; Debts Receivable, gross £3,580, *net* £3,317.
24	300	Instalments £45 *plus* Interest. Total amount of Interest £23 12*s.* 6*d.*, diminishing by £1 2*s.* 6*d.* each half-year. (Compare Exercise XXXVIII.)
LESSON XIV.		
25	351	N/P due to Frazer £490 9*s.* 0*d.*
26	351	N/P due to Tinto £963 9*s.* 0*d.*
27	351	Cash £3,338; Capital £538.
28	351	Cash £12,870; Capital £13,286.
29	352	Cash £250; B.R. £355; Capital £1,230.
31	353	B.R. £1,500; Bank £1,030; Price £658; Total Assets £4,318; Capital £2,025.
33	354	Total Cash £12,554; Total Assets £21,845; Capital £20,150.
34 (*a*)	354	*First Method:* No. 1, 115 per cent. profit; No. 2, 17 per cent.; No. 3, 127 per cent. *Second Method:* No. 1, 85 per cent.; No. 2, 9 per cent.; No. 3, 59 per cent.
34 (*b*)	355	Net Profit £430 11*s.* 0*d.*; Gross Profit £560 11*s.* 0*d.*; D.P. £1,539 10*s.* 0*d.*; Simpson £1,360 5*s.* 6*d.*; Ashton £1,350 5*s.* 6*d.*
35	356	Total Cash £135; Total Assets £3,020; Capital £2,860.
36	356	Net Profit £154; Assets £819; Capital £529.
37	356	N.P. £1,279 1*s.* 1*d.*; Cash £3,861 15*s.* 2*d.*; B.P. £875; D.P. £450 16*s.* 0*d.*; B.R. £841 3*s.* 6*d.*; D.R. £463 5*s.* 9*d.*; Total Capital of partners £29,266 15*s.* 11*d.*
38	358	Half-Yearly Depreciation £33. P.and L. *Dr* To Furniture on Hire Account.

No. of Exercise.	Page of Manual.	
LESSON XV.		
39	375	(1) £230 19*s.* 6*d.*; (2) Vanishes; (3) Balance of each account £1,276 5*s.* 8*d.*
40	375	*Depreciation:* Buildings £210, Machinery £100, Boilers £50, Horses £45, Ship £375, Office Furniture £19, Net Profit £3,856, Capital £32,516. [Allow for possible variation of opinion as to Depreciation.]
42	376	Houses £5,000; Cash £2,500; Capital £7,500.
44	376	G.P. £26 5*s.* 0*d.*; Interest £42 6*s.* 0*d.*; Net Loss £16 1*s.* 0*d.* [Work with Interest columns as on pp. 280, 281.]
45	376	Wear and Tear £6 6*s.* 8*d.*; Gross Profit £728 13*s.* 4*d.*; Machine Account £1,553 13*s.* 4*d.*
46	376	Profit and Loss *Dr.* £640; (Fixed) Capital Account: Present value £2,150 *less* old (book) value £860, viz. £1,290.
LESSON XVI.		
47	399	Gain on Farm £65; Present worth £2,870.
48	399	Daily Total of D.B. £11 12*s.* 6*d.*; Brought on £379 2*s.* 0*d.*; Monthly Total £390 14*s.* 6*d.*; Balances of Visitors' Ledger £47 2*s.* 11*d.*; Totals £68 17*s.* 8*d.*
49	400	N.P. £75 less £4 Discount = £71.
50	400	Assets £7,365 2*s.* 10*d.*; Capital £7,160 5*s.* 5*d.*
51	402	N.P. £68; Capital £803; Reserve for Repairs £39; Reserve B.D. £31; D.P. £341; D.R. (gross) £510.
52	402	*Final B.S.:* Cash £1,170; Clients £89; D.P. £90; Capital £1,169. *Rough Mem. Book:* Sundry Clients *Dr.* £1,487. [Our friend the Solicitor shakes his head and says he has had but a poor start. He has only made £169 profit the first year. *He keeps his little memorandum book in the background.*]

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53	403	Cash Receipts: £113, £487, £900, £1,202, £787. Profits on Cash basis: £192 (loss), £57, £345, £772, £482. On True basis: £108, £424, £745, £504, £183. [Showing that the Cash basis method has considerably over-estimated the profits during the last two years.]
54	403	Clients £1,338 6*s.* 0*d.*; Capital £2,418 6*s.* 0*d.*
55	403	N.P. £910; Capital £17,210.
56	404	Profits £562; N.P. £287.
57	405	Losses £671 0*s.* 10*d.*; Net Profit £59 16*s.* 11*d.*
58	406	G.P. £2,510; N.P. £900; Total Assets £12,850; Total Liabilities £2,250.
59	407	See page 399 for result and page 120 for method.
LESSON XVII.		
60	427	Trade Ledger £13,962 17*s.* 4*d.*; other Assets £8,780 6*s.* 8*d.*
61	427	Lopez Bros. £3,305 (viz. D.R. £4,050; Cash £2,675; Goods £2,300; D.P. £5,700); Cash £3,000; Capital £6,305.
62	428	Private B.S.: Cash £3,843; Goods £4,500; Trade Ledger £3,695 (*Cr.*), Capital £4,648.
63	428	*Trade B.S.:* Debtors £1,559 9*s.* 6*d.*; Creditors £475 19*s.* 6*d.*; Private Ledger £1,083 10*s.* 0*d.*
64	429	£1,631, £971, £1,071; Total £3,673.
65	430	O'Hagan £7,393 19*s.* 11*d.*; Rowe £4,781 0*s.* 7*d.*
66	430	Ratio 3,000 : 2,150 = 60 : 43. Therefore A.B. takes £450, and C.D. £322 10*s.* 0*d.*
67	430	Stoddart £11,009 6*s.* 1*d.*; Palairet £5,323 2*s.* 6*d.*
68	431	Due to H.L. £422; due from W.G. £177.

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LESSON XVIII.		
70	465	*Dr.* *Cr.* Cash ... ... £70,000 Purchase Account ... 60,000 Capital ... ... £100,000 Debenture Account ... 30,000
71	466	Total paid up Capital £15,000.
72	466	£432,284 14*s.* 0*d.*; £289,140 6*s.* 0*d.*; £787,314 3*s.* 0*d.*
73	466	Interest on Debentures £1,112 10*s.* 0*d.*; on Preference Shares £1,383 6*s.* 8*d.* Dividend on Ordinary Shares at 7 per cent. £4,200; Balance forward £954 3*s.* 4*d.*
LESSON XIX.		
77	486	*Journalise and post as follows:* (*a*) Cash *Dr.* To Bank; (*b*) B.P. *Dr.* To B.R.; (*c*) Dallinger *Dr.* To Tea £9; (*d*) T. Bagster *Dr.* £4,608, To Cash *Cr.* £540, To S. Bagster *Cr.* £4,068; (*e*) Watson *Dr.* To Maclaren £200.
78	487	See Manual, page 480.
81	487	*Detect* (i.) by Trial Balance, (ii.) by Stock Book or Quantity columns in Goods Account. *Rectify* by posting the omitted entry to Goods Account.
82	488	*Discovered* (i.) by Trial Balance, or (ii.) by calling over. *Rectify* by Journal entry: Cashier (or P.and L.) *Dr.* To Brown, posting the debit only.
83	488	(i.) First indication, discrepancy of £300 between Journal totals and Trial Balance totals. (ii.) Reduce to narrow limits by localisation, &c., and then "call over." [NOTE.—Quantity columns in Goods Account would probably have checkmated the rogue.]
LESSON XX.		
86	509	*Final B.S.:* Consols £5,860, Mortgage £3,000, Interest (2 months) £20, Estate £8,880 *Cr.*
89	510	Total £13,912; Details *ad libitum.*
90	510	*Journalise:* Vote 1, *Dr.* £30; Vote 3, *Dr.* £11 5*s.* 6*d.*; To Vote 2, *Cr.* £41 5*s.* 6*d.*

No. of Exercise.	Page of Manual.	
91	511	*Journal Entries:* March 27, General Account *Dr.* To Exchequer £61 1*s.* 2*d.*; April 15, Exchequer *Dr.* To General Account £30,000; April 30, Sub-head, Salaries *Dr.* To Orders Payable £1,500 7*s.* 6*d.*; April 30, Exchequer *Dr.* To Sub-Accountant £17 11*s.* 6*d.*

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		£	s.	d.	£	s.	d.
April 4.	Exchequer *Dr.*	8,500	0	0			
	To General Account ...				8,500	0	0
,, 30.	Paymaster-General *Dr.*	3,013	7	7			
	To Exchequer				3,000	0	0
	To Extra Receipts ...				13	7	7
	Orders Payable *Dr.* ...	2,697	2	9			
	To Paymaster-General ...				2,697	2	9
May 28.	Exchequer *Dr.*...	25,000	0	0			
	To General Account ...				25,000	0	0
June 1.	Sub-head A *Dr.*	7	11	6			
	To Exchequer				7	11	6

THE END.

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